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INTRODUCTION
TO
THE COMMERCIAL SCIENCES

INTRODUCTION

TO

THE COMMERCIAL SCIENCES

BY

E. E. WHITFIELD, M.A.

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Sometime Clerk in the Lambton Office, Sunderland*

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"Learned men with mean experience would far excel men of long experience,
and outshoot them in their own bow."—BACON.

"*Ich wüsste nicht wessen Geist ausgebreiteter wäre, ausgebreiteter sein müsste,
als der Geist eines echten Handelsmannes.*"—GOETHE.

REVISED PREFACE

THE following lessons, which largely represent graduated instruction given in the first instance by the writer to his private pupils, would seem to have met the want of a guide to the treatment of such studies in schools that are giving effect, as far as circumstances allow, to the scheme now promoted by the Chambers of Commerce throughout the British Empire. At the same time he would express his satisfaction that the book has gained recognition in some Commercial Schools of the Continent.

The curriculum of the First Grade Schools of Belgium, which has for many years been a proved success, has been closely followed in their preparation. That system is especially suggestive for English teachers, as the *Athénées* are organised much as our public schools, having both classical and modern divisions, the latter of which are subdivided into 'scientific' and 'commercial' sections.

In entering upon the study of the Theory of Business a clear idea will first be required of the nature of economic wealth; of utility as the basis of exchange value, which satisfies rational human wants. As, when determining the ways in which such wants can best be satisfied, the inquiries of the economist conventionally fall in turn under four distinct heads, our endeavour has been in these lessons to place the

reader's study of each branch of 'Political Economy' in touch with the daily operations of business.

The First Part of the book is intended to introduce each division of commercial study in the most general way, including miscellaneous points which, if taken later, would break the continuity of some lessons that are fairly exhaustive. Accordingly, in this portion of the manual not only are the two first lessons devoted to a preliminary view of Commercial and Industrial law, as parts of a system of government rendering business operations feasible, but indication has been briefly given of the scope of Mercantile Arithmetic, Book-keeping, and Economic Geography, and afterwards such subjects are assumed to be studied in existing manuals specially devoted to them.

In the Second Part especially an endeavour has been made, whilst handling more details, to avoid disproportion, having regard of course to the varying importance of the topics discussed, although the wide range of subjects which may claim attention, such as those comprised under 'Industry'—here of necessity treated fragmentarily—made this difficult.

The German and French equivalents for technical terms which, whenever available, have been added in footnotes, may stimulate further study; and, in aid of this, a list of authorities, French and German, as well as English or American, has been given in the First Appendix. The manuals occasionally referred to in the body of the book as *French Commercial Reader* and *French Commercial Dialogues* belong to a series published for the writer by Messrs. Hachette; whilst that entitled *Précis Writing and Office Correspondence* is issued by Messrs. Methuen.

Some Examination questions have been collected in the Second Appendix. Others, bearing on Correspondence in

foreign languages, have already been reproduced in the pamphlet entitled, *Guide to the Effective Study of Languages for Business Purposes* (Hachette).

It is hoped that these lessons, which have undergone revision, may assist some readers in respect of that which, Pascal so well said, is the most important thing in life,—the choice of a profession, often made by boys before they leave school. As Goethe thought, ‘One cannot do a young man greater kindness than initiate him early in the future business of his life.’

LIVERPOOL,

October, 1899.

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PART I

LESSON I.



FRAMEWORK OF COMMERCIAL AND INDUSTRIAL LAW.

Law, the Pre-requisite of Trade and Industry—Study of Commercial and Industrial Law—Common Law and Statute Law—The Law Merchant—Character and Scope of Industrial Law.

§ 1. THE principles of ECONOMICS can operate only in an organized society, the members of which exhibit a certain amount of culture and possess political institutions, with a system of effective **Law** protecting both person and property. It is the last mentioned element to which we shall direct attention in this and the next following lesson, with reference especially to the elaborate system by which the English people is governed.

§ 2. And first a few remarks may be made as to the study of so much of it as concerns those whose career is or will be one in business. In the management of property and the satisfaction of one's requirements as a consumer, some knowledge, however little, but sound as far as it goes, of the principles according to which the enjoyment of such property is secured and dealings with others will be effectual in their object, is felt by all intelligent persons to be desirable. This becomes a matter of unquestionable importance for those who engage in any economic pursuit. The management of an industrial business, such as a cotton mill, or the exercise of any commercial calling, such as that of a general merchant,

besides conforming to the traditions of the particular pursuit, must comply with the legal requirements affecting it, if the person concerned is to succeed in his undertakings and enjoy the fruits of his labour. Mercantile Law,¹ then, is intended to serve the interests, or check the operations, of traders in general; Maritime Law,² those of a large class of carriers; Industrial Law,³ those of producers.⁴ The order in which they have been mentioned is that of their historical development.

We shall begin by indicating the way in which the subject must be approached, giving the reader a general idea of the structure of our Law, the way in which it has been formed, and how it is administered; and shall in successive lessons sketch the substance of those portions of it bearing on the respective topics which come before him.

§ 3. "Unwritten, or common law," writes Blackstone, "is properly distinguishable into three kinds. 1. General customs, which are the universal rule of the whole kingdom, and form the *common law*, in its stricter and more usual signification. . . . This for the most part settles . . . the solemnities and obligation of contracts . . . the respective remedies of civil injuries . . . and an infinite number of minuter particulars. . . . Thus, for example, that a deed is of no validity unless sealed and delivered . . . that money lent upon bond is recoverable by action of debt . . . these are doctrines that are not set down in any written statute or ordinance, but depend merely upon immemorial usage, that is, upon common law, for their support."⁵ "2. Particular customs, or laws which affect only the inhabitants of particular districts. . . . To this head may most properly be referred a particular

¹ *Handelsrecht*; *droit commercial*.

² *Seerecht*; *droit maritime*.

³ *Gewerbegesetzgebung*; *législation industrielle*.

⁴ Commercial Law, as set forth by the 'Code de Commerce,' is taught in the Belgian First Grade Schools, from the Middle Form upwards of the *section commerciale*.

⁵ *Commentaries on the Laws of England*, 7th edition, vol. i. pp. 67 f.

system of customs used among only one set of the king's subjects, called the custom of merchants, or *lex mercatoria*,¹ which, however different from the general rules of the common law,² is yet ingrafted into it, and made a part of it; being allowed, for the benefit of trade, to be of the utmost validity in all commercial transactions; for it is a maxim of law that *cuiuslibet in sua arte credendum est*.³ . . . "A very natural and very material question arises: How are these customs or maxims to be known, and by whom is their validity to be determined? The answer is, By the judges in the several courts of justice. They are the depositary of the laws, the living oracles, who decide in all cases of doubt, and who are bound by oath to decide according to the law of the land. . . . These judicial decisions⁴ are the principal and most authoritative evidence that can be given of the existence of such a custom as shall form a part of the common law. . . . The doctrine of the law then is this: that precedents and rules must be followed unless flatly absurd or unjust, for though their reason be not obvious at first view, yet we owe such a deference to former times as not to suppose they acted wholly without consideration. . . . The decisions therefore of courts are held in the highest regard, and are not only preserved as authentic records in the treasuries of the several courts, but are handed out to public view in the volumes of reports⁵ which furnish the lawyer's library."⁶ "3. Certain

¹ It is first mentioned in the *Charta Mercatoria* of Edward I. (*Jus consuetudinarium, jus mercatorum*.)

² As in other countries. Thus the greatest part of the classical Roman law of trade was derived from the *jus gentium*, or body of customs common to the various Italian tribes. The word *arrha* appears to be of Phœnician origin. Such words as *hypotheca* are Greek.

³ BLACKSTONE, pp. 68-74.

⁴ The cases upon which these are founded are cited by the name of the plaintiff *versus* (contracted into *v.*, *i.e.* against) that of the defendant.

⁵ These are published *in extenso* quarterly; but concise daily reports of the more important cases appear in the *Times*, &c., and weekly reports are reproduced in a separate form by the office of the leading journal, which are of special interest to the commercial world.

⁶ BLACKSTONE, pp. 69-71.

particular laws, which by custom are adopted in particular courts of pretty general and extensive jurisdiction. By these I understand the civil laws. . . . There are four species of courts in which the civil laws are permitted under different restrictions to be used." Amongst these are enumerated the courts of Admiralty. "Their reception in general, and the different degrees of that reception, are grounded entirely upon custom."¹

"The *leges scriptae*, the written laws of the kingdom, are statutes and edicts made by the king's majesty, by and with the advice and consent of the lords spiritual and temporal, and commons in parliament assembled. The oldest of these now extant, and printed in our statute books, is the famous Magna Carta, as confirmed in parliament 9 Henry III."²

So much for Blackstone's classical statement. "Merchants," writes Lord Farrer, "have done what they found useful, and the lawyers who have been entrusted with the function of declaring the law, have very sensibly, by means of a useful fiction, declared the law to be what the merchants have practised, wisely confining their own part in the matter to ascertaining the customs of trade, and giving to those customs form and logical consistency. Finally, the legislature has in some cases adopted the rules thus determined, and has given them the form and sanction of an Act of Parliament."³

§ 4. Whilst, then, the older 'law merchant' is a part of the common law, a considerable portion of our **Mercantile** Law administered at the present day is enacted or statutory, and tends to become more and more so. During the second half of this century such important topics, amongst others, as Merchant Shipping, Companies, Partnership, and Bills of Exchange, &c., have been regulated by statute. The process of codification has most recently been applied to the Law of Sale also.⁴

¹ BLACKSTONE, pp. 67, 79, 83.

² *Ibid.* p. 85.

³ *The State in its Relation to Trade*, p. 24.

⁴ By the Sale of Goods Act, 1894, a copy of which should be obtained by every reader.

Mercantile law is concerned characteristically with that description of property called 'personal,' or movable, which in modern times has acquired an importance that did not belong to it in the earlier stages of society.

Besides the legal topics just mentioned, we shall have occasion to notice in their due connection the principles of the general law of Contract, the rules governing the contract of Agency, the law of Common Carriers, the relation of Debtor and Creditor, and the law of Marine, Life, and Fire Insurance.

§ 5. The greater part of **Industrial** law is of modern origin, and contained in parliamentary enactments. Here, as in respect of the law of Commercial Contracts, "the freedom of one continually resolves itself into the restriction of another." "In practical legislation the first step is to throw aside all supposed absolute rights or inflexible principles." We have to do with "a system of adjustments and compromises founded upon experience and trial."¹ Industrial, like Commercial Law, should approximate as closely to economic principles as the state of society admits of.²

Under this head attention will have to be given to legislative restrictions on hours of labour and the employment of women and children, in the Mining and Factory Acts; to the regulation of wages in the Statute of Labourers, the Statute of Apprenticeship, and the Truck Act; to the enactment and repeal of the Combination Laws, and final recognition of Trade Unions; to Poor Law legislation; and to measures regulating Patents and Trade Marks.

¹ JEVONS, *The State in its Relation to Labour*, ch. i., 'Principles of Industrial Legislation.'

² The relation between the two has been admirably expounded by the writer just quoted.

LESSON II.

INTRODUCTION TO COMMERCIAL AND INDUSTRIAL LAW (continued).

Territorial Operation of English Law—Courts of Justice—Government
Departments concerned with Trade or Industry—Continental Codes
of Commercial Law—Conflict of Laws.

§ 6. NEXT as to the territorial operation of English Law.
“It is enacted by 27 Henry VIII. that the laws of England
and no other shall be used in *Wales*.”¹

“6 Anne, Act of Union, art. 18.—The laws relating to trade,
customs, and the excise shall be the same in *Scotland* as in
England. But all the other laws of Scotland shall remain in
force; but alterable by the parliament of Great Britain.”²
Such portions of the law administered in Scotland as are
peculiar to North Britain are derived very much from the Civil
Law.

“The *Irish* were governed by what they called the Brehon
law.³ In a Parliament holden at Kilkenny, 40 Edward III.
. . . the Brehon law was formally abolished. . . . But the
Irish nation, being excluded from the benefit of the English
statutes, were deprived of many good and profitable laws, made
for the improvement of the Common Law, and therefore it was
enacted [10 Henry VII.]⁴ that all acts of parliament before

¹ BLACKSTONE, vol. i. p. 95.

² *Ibid.* p. 96.

³ Some interesting features of this law have been set forth by Sir H.
Maine in his *Early History of Institutions*.

⁴ Poyning's Law.

made in England, should be of force within the realm of Ireland.”¹

“The *Isle of Man* is a distinct territory from England, and is not governed by our laws: neither doth any act of parliament extend to it, unless it be particularly named therein.”²

“The islands of *Jersey*, *Guernsey*, *Sark*, *Alderney*, and their appendages, are governed by their own laws, which are for the most part the ducal customs of Normandy.”³

Colonies.—“It hath been held, that if an uninhabited country be discovered and planted by English subjects, all the English laws then in being are immediately there in force. But this must be understood with very many and very great restrictions. . . . In conquered or ceded countries, that have already laws of their own, the king may alter the laws; but till he does actually change them, the antient laws of the country remain.”⁴ The Australian colonies fall under the one category; Trinidad,⁵ Cape Colony,⁶ and Mauritius,⁷ under the other.

§ 7. The Law is administered and made effective in England and Wales by the various tribunals which together constitute the **High Court of Justice**, and by those of inferior rank, such as ‘County Courts.’ The High Court is composed of those of first instance, and those having appellate jurisdiction. Thus we have the Queen’s Bench and Chancery Divisions, beyond which are the primary Court of Appeal and, lastly, the

¹ BLACKSTONE, vol. i. pp. 100 ff.

² *Ibid.* p. 105.

³ *Ibid.* p. 106.

⁴ *Ibid.* p. 107.

⁵ This island is governed by the old Spanish law.

⁶ Roman-Dutch law is still administered in this colony.

⁷ The French Code of 1807 remains in force here.—Lower Canada is under a special Code of the year 1866. The first English settlers in the North American ‘plantations’ took with them the English Common Law, which has remained the basis of the law of the United States. It is variously modified by the rules of the several States. The rules of Hindoo and Mohammedan law are applied side by side in British India.

House of Lords, whose legal members sit as a supreme court of appeal, their decisions being final. Questions of probate (testamentary) matters, and maritime (as collision) cases are within the exclusive jurisdiction of the Probate, Divorce, and Admiralty Division. Bankruptcy matters come before the Court of Bankruptcy, also presided over by a judge of the High Court. The judicial committee of the Privy Council act as a court of appeal for cases remitted from the various high courts of the Indian presidencies.

Amongst inferior courts, that of the Lord Mayor has jurisdiction within the city of London; whilst in the provinces the County Courts serve for claims under certain amounts. There are, besides, some semi-judicial authorities created by various Acts of Parliament, such as the Railway and Canal Commissioners.

The Court of Session at Edinburgh has principal jurisdiction in Scotland; whilst there are inferior courts presided over by sheriffs, which correspond to the County Courts in England and Wales.

The Irish courts are modelled on those of England and Wales.

In England, at the instance of a joint committee of the Bar and Solicitors, a special judge has been appointed for the trial of 'commercial cases,' a list of which is published daily. Traders may, however, resort to **Arbitration** rather than litigation, as this word is generally employed. When parties having a dispute submit to arbitration, the award of the arbitrators, or of the umpire appointed to act in the event of disagreement of the arbitrators, acquires the force of a judicial decision if the parties have agreed that it shall be made a 'rule of court.' Legal instruments employed by men of business usually contain an arbitration clause.

Tribunals of commerce, with merchant judges, which were

originally proposed by Sir J. Child in his *Discourse of Trade*, and exist in various Continental countries, have not yet gained favour in this country.¹ A crude form of such courts, however, existed during the period of the 'staple,' and in connection with it, as in the reign of Edward III. We shall have to speak of this more particularly in lessons under EXCHANGE.

§ 8. The will of the legislature is further carried out by various executive departments or Government offices. The principal of those concerned with Trade and Industry are (1) The **Board of Trade**, in seven departments:—(a) The *Railway* Department, which, besides the control of railways and matters arising out of the working of such, is responsible for the registration of Joint Stock Companies, and for the grant of commercial charters; (β) the *Harbour* Department, supervising harbours, lighthouses, pilotage, and, as less appropriate duty, seeing to the administration of Acts relating to weights and measures, and to the coinage; (γ) the *Marine* Department, which amongst its miscellaneous functions keeps a copy of the register of ships supplied from the various British ports; (δ) the *Financial* Department, which receives the accounts required by statute to be rendered periodically by Life Insurance Companies; (ε) the *Statistical* Department, which prepares digests and abstracts for publication in the *Board of Trade Journal*, from materials partly supplied by other departments of State, and issues monthly and annual trade returns; (ξ) the *Fisheries* Department; and (η) the *Bankruptcy* Department. (2.) The **Treasury**:—(a) The Board of Inland Revenue, for the regulation and collection of the Excise, and (β) the Board of Customs, for the regulation and collection of duties on exports, &c. (3.) The **Foreign Office** is entrusted with the negotiation of foreign treaties. It has the appointment of 'Consuls,'

¹ A bill was introduced in the House of Commons in 1889 by Sir A. Rollit and others for the establishment of such courts, which fell through from apathy on the subject.

or officers in foreign countries representing the commercial interests of Great Britain where they reside, who advise, and if necessary provide protection for, English subjects engaged in trade with the country concerned, and periodically transmit to the Foreign Office reports as to the state of trade, regulations affecting it, and other information of importance or interest to British traders. Consuls, whilst discharging their functions primarily by virtue of the commission they hold from the Government they represent, do so effectively through the recognition accorded to them by that of the State in which they reside, attested by a document called an '*exequatur*.'¹ In some regions, as the Levant, China, and Japan, consuls have judicial functions. (4.) The **Home Office**, which supervises the administration of statutes regulating, amongst other things, labour in factories and mines. This department is also the authority for the grant of certificates of naturalization, which we shall speak of presently. (5.) The **Board of Agriculture**, charged with the interests of this branch of industry.²

§ 9. Several Continental countries, such as France, Germany, and Italy, have special Commercial Codes, by which their trade is regulated respectively. The principal of these are the Napoleonic *Code de Commerce* and the German *Handels-gesetzbuch*.

International Private Law, called by the American jurist Story the 'Conflict of Laws,' is the body of doctrine, formulated by jurists or scientific lawyers, which arises from what Phillimore describes as the 'comity of nations,' whereby the

¹ This institution originated in ancient Greece; but it was not until the sixteenth century that subjects of the sovereign represented were sent abroad from their own country. Previously consuls were always natives of the country in which they resided.

² As to the connection of the **Postal** department with the requirements of business, see under 'Correspondence,' 'Transport,' 'Credit,' 'Insurance,' 'Savings,' and 'Stocks.'

courts of various countries within the pale of Christian civilization recognise to a certain extent each other's rules. We shall refer to some principles of this law when dealing with the general Law of Contract, and the Law of Bills of Exchange.

Here something may be said upon Nationality and Domicil, which affect foreigners resident in a country for the purposes of trade.

*Nationality*¹ regards political status. By the Naturalization Act of 1870 every subject of Her Majesty who is of full legal capacity is enabled to divest himself of British nationality; but this is recoverable.

By *domicil*² is meant the country in which a man resides with the intention of doing so permanently. If he should have a double residence, one where he carries on his business, the other in which he lives with his family, the latter will be his domicil and regulate his civil status. Domicil is, accordingly, of importance to British traders who establish themselves abroad. The law of their domicil governs their testamentary dispositions of movable property.

§ 9a. We shall have elsewhere to notice some rules of International Law as to the rights and disabilities of merchant ships in time of war.³

¹ *Nationalität ; nationalité.*

² *Domizil ; domicile.*

³ *Lesson x. ad fin.*

LESSON III.

THE FACTORS OF PRODUCTION, AND LABOUR IN PARTICULAR.

Land—Elements of Productivity of Labour—History of British Industry.

§ 10. HAVING had before us in the preceding lessons the general features of the laws of English-speaking communities and the relation to one another of the respective systems of civilized nations, amongst which alone Industry and Trade can be exercised under favourable conditions, the reader will now be in a position to enter intelligently upon that portion of Economics which is concerned with PRODUCTION.¹

§ 11. **Land**, or, as French and German economic phraseology has it, 'Nature,'² is of course the ultimate source of all production. Until speaking more particularly of Agriculture as one of the forms of economic Labour,³ we shall do no more under this head than call attention to the great law of agricultural production, that of 'diminishing returns,' which Professor Walker enunciates thus: "After a certain point has been reached in the cultivation of any tract or field, an increase of production cannot be obtained without more than a proportional application of labour, or capital, or both." The reader is referred to the same writer's exposition of this law,⁴ or that contained in any other approved manual of economics.

§ 12. Productive **Labour**⁵ may be defined as: "Man's

¹ *Produktion* ; *production*.

² *Natur* ; *nature*.

³ See Part ii.

⁴ *First Lessons in Political Economy*, chap. v.

⁵ *Arbeit* ; *travail*.

action upon Nature, with a view of satisfying his wants.”¹ The various forms taken by Industry² in the wider sense of the word will come before us; but the student’s attention at the present stage should be given to the causes that underly differences in the productiveness of labour.³

These are (α) natural advantages: conformation of the country, and the fertility of its soil, favourable climate, and supply of minerals in particular.⁴ (β) Human energy. As Laveleye says, “In the ages of civilization man makes Nature.” Here racial distinctions count for something, but not much: religious ideas are more potent, as also moral sentiments, which are seen to advantage in European and, we may venture to say, especially in Teutonic societies. (γ) Civil institutions and laws determining order and security.⁵ Proprietary rights foster a sense of responsibility.⁶ Under this head falls hired as distinct from slave labour, which was a great drawback to progress in antiquity. The removal of mediæval restrictions on labour⁷ was, again, a great advance. (δ) Knowledge. This as it increases gives birth to better method in labour. Men by experience learn the advantage, first of combination of effort, and then of division and sub-division of employments. The benefits of division of labour are the opportunity it gives for the full exercise of special aptitudes, saving of time and tools; hence, cheapening of products. It finds widest application where the market for such products is the

¹ See LAVELEYE, *Elements of Political Economy*, p. 33, and cf. citation from Courcelle Seneuil in BITHELL’S *Counting House Dictionary*, p. 229.

² *Gewerbe; industrie*. See MILL, *Principles of Political Economy*, i. 3, 2; and as to ‘Business’ (*Geschäft; affaires*) not being co-extensive with ‘Trade’ (*Handel, Commerce*), Mr. JUSTICE WILLES’S remarks in *Harris v. Amery* (1865).

³ As set forth, e.g., in MILL, bk. i. chap. 7.; WALKER, pp. 36-49, or LAVELEYE, pp. 36-82.

⁴ Under the new order of things in practical education early attention should be given to *physical* geography.

⁵ Sect. 2 above.

⁶ Such as, for instance, should result from the success of Mr. Chaplin’s Small Holdings Act.

⁷ See below.

greatest. Specialisation has the disadvantage of cramping a man's mind ; but this may be remedied by curtailment of the hours of his labour at his special vocation, so as to afford him leisure for the acquisition of other knowledge.¹

§ 13. It may be well here to gain a general idea of the historical development of English Industry in the stricter sense of the word, without dwelling at this stage upon any special topic.

Cultivation of the soil in Anglo-Saxon times belonged for the most part to the class of 'theows' or serfs.² Artisans were of the lowest class of freemen, that is 'ceorls'; such as those who engaged in weaving, tanning, or metal-work. The tin-miners of Cornwall,³ of the British stock, retained their separate existence for a considerable period.

Associations of those working at the same craft, and called 'gilds,' seem to have originated in Anglo-Saxon times, although the earliest mention of craft-gilds is in the reign of Henry I. These associations, like those called 'frith gilds,'⁴ preserved remnants of an earlier state of society, of which the unit was the Family. Thus corporate responsibility is a feature of the system. The gilds looked after the morals of their members. The craft-gilds had a monopoly in their own respective districts. No man could pass from one craft to another ; practically he did not choose his vocation. There were besides gild restrictions upon the hours of labour. One of the functions of a gild was to take care that good work was turned out. The system of *apprenticeship* arose in connection with that of craft-gilds, but is not mentioned in any records earlier than a statute of

¹ Aids to this are now found in the evening instruction provided by County Councils and other bodies for operatives in particular.

² Bristol became notable as a slave-market.

³ The working of the Cornish mines is traced back to four hundred years before Christ. The Romans developed this industry.

⁴ Of a purely religious character.

Richard II.¹ It was some time before a distinction was made between masters and journeymen. When the gild system was already in decay, an attempt was made by the Statute of Apprenticeship, passed in the fifth year of the reign of Elizabeth to revive it, with the enactment that for every apprentice there should be three journeymen employed.²

§ 14. English industry benefited by the immigration into this country of the Flemings successively brought over by Henry I. and Edward III. These settled at Norwich, Leeds, Bradford, and Manchester. In the reign of Elizabeth there was a fresh accession of skilled labour through the advent of refugees from the Spanish Netherlands; and again, in that of James II., of Huguenots from France, upon the revocation of the Edict of Nantes. Hence, as time went on, England was able to command sufficient skilled labour to render her independent of foreign aid.

The products of English labour were for centuries hand-made, under a system of 'domestic' manufacture. The 'factory system,' or massing of those before called 'hands,' which was fairly established on the conclusion of the struggle between Great Britain and her American Colonies, was the result of a series of improvements in machinery,³ which commenced in the reign of George II. with Kay's invention of a moving shuttle, was accelerated by the use of coal for manufactures, and culminated in Arkwright's production of the water-frame. The immunity from invasion enjoyed by England during the Napoleonic wars enabled her rapidly to develop this new order of things, so that she emerged out of them the foremost manufacturing country in the world. Not but that discontent made itself felt at home in the work of incendiaries and Luddite riots; the real gain, however, and benefit to all classes was seen before the

¹ Of the year 1388.

² See further § 40 n.

³ Contemporaneously with others in methods of agriculture, which will be noticed at a later stage.

close of the long reign of George III., so fruitful in events of economic as well as political importance.

We were brought by the International Exhibition of the year 1851 to what may be called the present industrial era. From that time forwards the competition¹ of other countries has been increasingly felt in England, but not without lessons being learnt which have borne and are bearing their fruit. The 'Great Exhibition' led to the foundation of the Science and Art Department at South Kensington, with Science and Art Schools throughout the country, which has been followed by the establishment of various Technical schools and colleges.

§ 15. British industry of course received an impulse from the acceptance in this country of Freedom of Trade, which will be considered in another connection. It may be sufficient here to remark that international freedom of exchange leads naturally to division of labour between producing countries, an extension of the principle applicable to individual labourers.

The English industrial was closely followed by the French political and social revolution. The ancient and, although to a less extent, mediæval relations of society exhibit the prevalence of **status**, or corporate action and privilege, as its governing principle. The French Revolution, the spirit of which has left its mark on most countries of Europe, emphasized individual action. Unfettered individual competition and freedom of **contract** characterise the new era.² In the next lesson, accordingly, the reader's attention will be called to the general principles of the English law of contract, applicable alike to industry and trade.

¹ *Konkurrenz*; *concurrence*.

² Upon this subject, see extract from Courcelle-Seneuil's *Manuel des Affaires* in 'French Commercial Reader,' § 15.

LESSON IV.

THE GENERAL LAW OF CONTRACT.

Definition and Elements of Contract—Form in Contract—Simple Contracts—How a Contract may be Vitiating—Benefits and Burdens of a Contract—Evidence and Interpretation—Discharge of Contract—Conflict of Laws.

§ 16. A CONTRACT¹ is any agreement which the law renders enforceable, with reference to some act or forbearance involving a pecuniary interest, either as affecting one of the parties only, and then termed 'unilateral,' or both of them, and so-called 'bilateral.' Every such agreement may be either 'express' or 'implied,' according as it is enunciated in writing or by word of mouth, or is gathered from the conduct or acts of the parties.

The elements of every contract are (α) an offer, (β) an acceptance, (γ) an obligation annexed by law to the agreement. Mere silence does not give consent.² Until acceptance the offer may be retracted,³ and if it has been made by letter,⁴ the revocation must be signified to the other party before his letter of acceptance is posted; on the other hand, the acceptor is bound from the time of posting his letter, so that, according to preponderant judicial authority, a telegram revoking acceptance,

¹ *Vertrag*; *contrat*.

² 'It must be silence under such circumstances as to amount to consent.'—ANSON, *Law of Contract*, p. 9. Cf. German *Handelsgesetzbuch*, Art. 339.

³ In auction sales a bid operates as an offer, and can only be withdrawn before the fall of the hammer.

⁴ For correspondence in general, see the next lesson.

although it reach the proposer before delivery of such letter, is of no avail.¹ The acceptance, moreover, must be in the same terms as the offer.

§ 17. A contract must either be clothed in a particular *form* or based upon some valuable *consideration*, by which is meant such motive or inducement for the promise as has a market value, in distinction from affection or friendship. In respect of formalities, contracts are divided into three classes: (α) those of record, (β) those under seal, or 'deeds,' for each of which classes form is essential, and (γ) 'parol' or 'simple' contracts, which must be supported by valuable consideration. The bulk of daily transactions in trade come under this last head.

'Records' are the rolls of a court upon which its proceedings are entered. The most important contracts of record are 'judgments,' which are rightly called contracts when given by consent of the defendant.²

'Deeds,' technically called 'specialty contracts,' are contracts in writing sealed³ and delivered by the party making them. Such an instrument under the hand and seal of a single person is called a 'deed poll.' An acknowledgment by the party making it, that he is bound to another in a certain sum of money to be paid to the latter, is called a 'bond.'

A contract under seal, as also one of record, acts as an 'estoppel' between the parties, by which is meant that they are bound by every statement in the deed or record.

An action can be brought on a deed within twenty years from the time the right of action accrued.

A contract to be valid must be made *by deed*—(α) when there is no valuable consideration, (β) occasionally when there is valuable consideration, as an agreement in restraint of trade,

¹ The German Code applies the same rule to acceptance as to offer. (Art. 320.)

² Foreign judgments, however, are by English courts treated as simple contracts. (Cf. § 289.)

³ They are usually signed as well, but this is not actually necessary. In the copy of a deed, 'Sig.' stands for *signed*, and 'L.S.' for *locus sigilli*, place of the seal.

(γ) if it is the contract of a corporation,¹ (δ) for the appointment of an agent to execute a deed, (ε) for the transfer of ownership of, or shares in, a British ship.²

§ 18. A simple contract is one in writing, but not under seal, or by word of mouth, or implied by the conduct of the parties, and made for 'valuable consideration.'

Consideration may be explained more fully as the act, forbearance, or promise by one party as the price of the promise by the other.³ It must not be contrary to the policy of the law, so as to be illegal; and a 'good,' meritorious, or moral consideration is not sufficient to sustain a parol contract; but the consideration required is some benefit which shall accrue to the person to be bound, or to a third person at his instance, or some disadvantage which shall affect the person interested in the promise at the instance of the person to be made liable. Inadequacy of value will not invalidate the contract, unless it arise from fraud or 'duress,' meaning coercion, otherwise trade in particular would be vexatiously hampered.⁴

It is necessary that the consideration should be present or future, which gives rise to three kinds of consideration: (α) *concurrent*, when something is done at the time the promise is made; (β) *executory*, when something is to be done after the promise is made; (γ) *executed*, when something has been done before the promise is made. In the last case the motive is insufficient, and therefore a promise made on such a consideration will not be binding, unless the past consideration was done at the request of the person making the promise. An

¹ But this is not absolute, and, in particular, does not apply at all to trading corporations.

² Some other cases we might mention are not within the scope of this manual.

³ Cf. ANSON, p. 71, and for the general rules applicable to it, *Id.* pp. 67 f.

⁴ The State, however, exercises supervision of the quality of certain commodities submitted for sale. We shall revert to this in another connection.

important exception also arises in respect of any promise in writing to pay a debt from the discharge of which the debtor would otherwise be absolved through lapse of time.¹

Besides the case just mentioned, the following amongst other simple contracts must be *in writing*: (α) bills of exchange and other negotiable instruments; (β) contracts governed by sections 4 and 17 of the Statute of Frauds (1678). To these last we must now call special attention.

By sect. 4 it is enacted that no action shall be brought on any of the following amongst other contracts, unless there be a note or memorandum of the contract signed by the party to be charged or his agent: (α) a promise by an executor or administrator² to be personally liable for a debt of the deceased; (β) a guarantee or promise made to a creditor to be liable in case of default by a third party; (γ) any contract not to be performed within one year of making.

Section 17 enacts that no contract for the sale of goods above the price of £10 shall be valid unless the goods, or part of them, be accepted and received, or the price or part be paid, or unless there be a note or memorandum of the contract to be signed by the party to be charged. We shall recur to this rule when dealing with the Contract of Sale.

A simple contract *merges* in a deed having reference to the same matter; but there is no merger of any simple contract in another. Thus if one man owes money to another for the payment of which he gives a 'promissory note,' a second simple contract arises, but if the note is not paid, the holder can still sue for the original debt on the note. If instead the debtor gave a bond, the debt would be merged in the bond.

§ 19. A contract may be vitiated in various ways. It is necessary here to consider the effect of Mistake, Fraud,

¹ The provision of Lord Tenterden's Act (1829), to which allusion is here made, we shall have to notice in connection with the special Contract of Debt.

² The legal representatives respectively of a person who has left a will, and of one who has died intestate,

Duress, Undue Influence, and Impossibility of Performance. Incapacity of either of the parties will be dealt with separately in another lesson.

Mistake on a question of Law will not disturb the contract, but it is otherwise with mistake on a question of Fact, such as to the person with whom the contract is made, or the identity of the thing contracted for. The parties must be in accord as to the facts of the case, but if they do agree upon the facts, and a mistake is only made in expressing them when the contract is put in writing, it may be altered.

Fraud, such as misrepresentation in a material point, done advisedly to induce another person to contract, whereby he sustains loss or damage, is ground for his rescission of the contract. Mere silence is not regarded as Fraud in law; but in certain cases requiring *uberrima fides*, as in the fiduciary relations of partners, of principal and agent, and in insurance contracts, the person is bound to say what he knows.

Innocent misrepresentation by one party does not render him liable, unless he gave a warranty, and then the action would be upon that.

Duress to the person is some force or threat whereby a person is compelled to enter into an agreement or make a payment. The contract is voidable at the instance of the party coerced.

Undue influence has always afforded ground for relief in Equity, but whilst in some cases it is presumed, in others strict proof of it will be required. Inadequacy of consideration, as we have said, would not support an action for rescission of the contract. The common case is that of a man at the mercy of a money lender.

Alteration of a written contract, if immaterial, does not affect its validity. If material, and made with the consent of both parties, it operates as a new contract¹; but if without

¹ This, in the language of the Civil Law, is a 'novation' (*Institutes of Gaius*, iii., 176 ff.; *Justinian*, iii., 29.3). BITHELL, *s.v.*, gives the payment of a debt by cheque as a familiar instance.

the consent of the party obliged, it then discharges the contract.¹

Impossibility of performance, as a ground of rescission, means either antecedent natural impossibility, or illegality of the object. The latter is seen in an agreement to do something contrary to 'public policy,' such as a contract in fraud of creditors, or wagering insurance of a ship in which the person has no interest, or a contract in total restraint of trade.² On the last-named ground, Trades Unions were treated as illegal, even after the repeal of the Combination Laws.³

§ 20. Who acquire benefits, and who have to sustain burdens, under a contract? The answer of the Common Law was, None but the contracting parties. An assignment of a 'chose in action,' as the right to recover by action a sum of money or any other thing was called, was not allowed except in the following cases: (a) by act of party, especially in respect of a 'negotiable instrument'; (β) by operation of law, as on the death or bankruptcy of the promisee. It was usual in any assignment of a chose in action for the assignor to give the assignee a Power of Attorney to use his name in suing. Again, choses in action which derived their force from the recognition given to them by the Courts of Equity were assignable, and some choses in action, such as those of Joint Stock Companies, Marine and Life policies, and Bills of Lading,⁴ were made assignable by statute. Finally, in 1873, the Judicature Act made all choses in action assignable, subject to the following conditions: That the assignment should be in writing, and absolute; and that notice of it should be given to the debtor.

¹ A special rule, however, obtains in respect of bills of exchange, which will be stated in its appropriate place.

² An agreement in restraint of trade will be valid if within reasonable limits, and then, as we have seen, must be made by deed, and for valuable consideration. The leading case on the subject is *Mitchell v. Reynolds*. (SMITH, 8th edition, p. 417.)

³ See further, § 105a.

⁴ See below under 'Transport.'

§ 21. The terms of a contract are proved, if verbal, by the *evidence* of one of the parties to it ; if in writing, by its being produced.¹ Oral evidence is not as a rule admissible to vary, explain, or add to the terms of a written contract. But it is allowed where the terms are those used in mercantile transactions, in the case of latent ambiguities, for identification of the parties, to incorporate with the contract a trade custom where the custom is connected with the trade in question, and to impeach the contract on the ground of fraud, duress, illegality, &c.

The *interpretation* must be reasonable, liberal, and favourable ; and words must be construed according to their ordinary meaning, unless by usage they have acquired a different one, or the contract shews that they were not used in their ordinary sense. The contract must be construed with reference to the whole of its terms, although only one particular clause may be in question ; and if there be two clauses contradicting each other, the latter is rejected.

§ 22. The debtor is bound to *perform* the contract at the time² stipulated. Delay is a breach of contract, of which the creditor³ may by Common Law take advantage by claiming damages ; but in Equity time was not always of the essence of the contract, and the Judicature Act, already referred to, has made the rule of equity a rule of law on this point.

‘Tender’ is attempted performance ; that is, an offer of performance refused by the creditor at the time the contract is due. The effect of a tender, unless it be of money, is to put

¹ It will only be available, however, as evidence if the requirements of the Stamp Act have been or are complied with.

² Month, it should be here remarked, means in English law a *calendar* month.

³ The words ‘debtor’ and ‘creditor’ are here used for the persons respectively under obligation and interested, without reference to actual payment or receipt of *money*. It will be remembered, however, that in all cases of contract in the meaning of the law, money’s value is involved. The relations of debtor and creditor in the special sense of each word will be discussed in a separate lesson.

an end to the liability of the debtor. Performance by way of payment, and discharge through bankruptcy, we shall deal with in subsequent parts of the book.

Since the Judicature Act a contract, however formed, may be *released* by an agreement for valuable consideration, either before or after breach, without further formality. In the absence of valuable consideration, the waiver and release must be by deed.¹

After breach of a contract it may be merged in a judgment. If a matter has been litigated and adjudicated upon, no further proceedings can be taken, except by way of appeal, so far as that is available.

A contract is discharged also by operation of the statutes of Limitation,² by bankruptcy, if in writing by material alteration, without the consent of the party liable, and by subsequent impossibility of performance by reason of its becoming illegal. But accident, fire, tempest, a strike, illness, death, will not as a rule cause a discharge, as persons contracting ought to be prepared for such emergencies.

*Damages*³ for breach of contract are "liquidated" where the amount recoverable is a fixed or certain sum, or they are 'unliquidated' where the amount is undetermined.

§ 23. As regards the 'conflict of laws' the rule of jurists is, that the original validity of a contract is determined by the *lex loci contractus*, or law of the place in which it was made; the liability of the person bound, by the *lex loci solutionis*, or law of the place in which it must be performed; whilst convenience, by common consent, dictates that the modes of enforcing a contract, and the remedies for breach, shall be those of the *lex fori*, or law of the place where the tribunal is to which the litigants submit the cause.⁴

¹ This rule does not apply to bills of exchange or promissory notes.

² It is otherwise with regard to a bill of exchange in the hands of an innocent transferee for value.

³ *Schadensersatz*; *dédommagement*.

⁴ The law as to Mercantile Persons will be treated of in Lesson vi.

LESSON V.

*BUSINESS CORRESPONDENCE.*¹

Importance of Business Correspondence—Essential Requirements—
Customary Abbreviations—Shorthand and Typewriting as Auxiliaries
to Correspondence—Office Routine—Précis—Telegraph and Telephone.

§ 24. IN the daily routine of business, contracts are made the terms of which are gathered entirely from a connected series of letters between the respective parties. As being closely connected therefore with the subject of the last lesson, we shall now discuss letter-writing in general.

Correspondence² has been described as “the intellectual machinery of Trade.”³ It is indeed mainly by its agency that the settling of important business is effected at the present day. Hence the supreme importance of this part of the work of men of business, especially in respect of foreign trade. Commercial codes attach so much importance to it that the French and German in particular require every one in business to keep a copying book for outward, and to file incoming correspondence, both of which, like books of account and other office papers, must be preserved for a period of ten years.⁴ We shall accordingly devote a short lesson to the consideration of this subject.

§ 25. There are three essential requirements in all business correspondence. (a) The correspondent must be master of

¹ Cf. now the writer's *Précis Writing and Office Correspondence* (1897).

² *Korrespondenz*; *correspondance*.

³ ROTHSCCHILD, *Taschenbuch*, ii. p. 3.

⁴ *Code de Commerce*, art. 8; *Allgemeines Handelsgesetzbuch*, arts. 28, 33.

his subject,¹ so as to know clearly what he wishes to write about. (β) He should use appropriate language for the expression of his ideas. (γ) His letter should be orderly, that is, he should arrange it methodically; the writing must be at least readable. As a matter of self-respect, a business letter, like any other communication, should not offend against orthography. The hints we shall here offer will extend to the second and third of these heads.

The words used should be as simple as possible, although technical precision must not be sacrificed to simplicity. There must be no ambiguity in the language. The writer should on the one hand avoid superfluity, and on the other omit nothing needed to make his intention and the meaning plain. Conciseness is one of the chief merits of a good business letter.² The words in general should be drawn, of course with discrimination, from the vocabulary of conversation, because the function of a correspondent is simply to put on paper what could otherwise be said to the person communicated with in an interview with him;³ but elegance and precision here have imperative claims.

Every letter should be self-contained, so as to entail as little reference as possible to preceding letters; and the writer should assign a separate paragraph to each fresh subject, or distinct portion of it.⁴ It is desirable to avoid crowding a line at the end, and not to divide a word in that position. To this

¹ He should have, in the first instance, a knowledge of business in general.—ROTHSCHILD, *Ibid.* p. 1.

² In the *Crittenden Business Manual* it is well said, that "to a business man a terse mercantile phrase is as full of meaning as a formula to a mathematician." (p. 383.)

³ This has an important bearing on the study of foreign languages for commercial purposes. Vernacular French, German, Spanish, &c., should be studied in connection with exercises in correspondence.

⁴ Distinct matter may be further marked by appropriate headings to the respective paragraphs, which some commercial men, following the practice of solicitors, commence with the word *re* (in the matter of).

orderly arrangement the writer must add neatness and, as we have said, legibility of handwriting.¹ Such abbreviations alone should be employed as are current in, and well known to, the trade. Mistakes through neglect of these points may give rise to litigation and loss to the party ultimately responsible. Punctuation is but little regarded by many men of business; a good letter writer, however, will carefully attend to this, as a false construction may often be put upon a letter not provided with stops. Rules for punctuation are given in the best grammars, and may be easily learned by one acquainted with grammatical analysis.

The writer of a reply should begin by setting out the date of the letter received, and that of its receipt; after shortly recapitulating its substance he should reply to the contents categorically, and distribute the matter of his own letter in paragraphs, besides observing of course other principles of letter-writing above named.

In either case attention should be given by a beginner to usages in respect of letter-headings, dates, and addresses. Every business letter should bear upon it the name of the person to whom it is addressed; this may come either just before the salutation, or on the left-hand side of the signature. A beginner should also observe the way of signing a letter according as it is subscribed by a principal or by a person authorised by him; and if there be an enclosure, he should note the practice of indicating it by a mark in the left-hand corner of the letter at the top. It should be described in the body of the letter.²

§ 25*a*. The following abbreviations are in common use for correspondence or in connection therewith.³ Those marked

¹ Students of German should practise themselves in reading letters written in the Gothic character.

² This guides the clerk who makes up the letter, and also the recipient.

³ Other abbreviations used in business will be recorded in their special connections.

with an asterisk are drawn from Continental practice exclusively:—Messrs., in French MM., stands for Messieurs; o.s., old style¹; a.m., *ante meridiem*, in the forenoon (German, V/m., *Vormittags*); p.m., *post meridiem*, in the afternoon (G., N/m.); inst., instant, of the current month (G., d/m., *dieses monats*, or simply ds.), (F., ct., *courant*); mo., month; ult., *ultimo*, of last month (G., v/m., *vorigen monats*); prox., *proximo*, of next month (G., n/m., *nächsten monats*); id., *idem*, the same; yr., year; *a.pr., *anni praeteriti*, of last year; *a.c., *anni currentis*, d/J., *dieses Jahres*, of this year; *a.f., *anni futuri*, of next year; P.T.O., please turn over (G., w.S.u., *wenden Sie um*, and in F., T.S.V.P., *tournez s'il vous plaît*); per pro., or p.p., *per procurationem* (G., ppa., *per procura*, and in F., p.p.^{on} ²); P.S., postscript; N.B., *nota bene*, take note; c/o., care of (G. *per Adresse*, and in F., *aux soins de*); P.O., Post-office; P.P., post paid (G., *frankirt*, and in F., *fc.*, *franco*); Reg., registered.³

§26. *Shorthand*⁴ is now in widespread use, and, as facilitating the despatch of much daily correspondence, has become a necessary equipment of correspondence clerks. "It has educational value in sharpening boys' wits, and gives a capital training in analysing sounds," is the recorded experience of a leading Headmaster.⁵ 'Phonography,' invented by Mr. Isaac Pitman, has done most to popularise the art, and most favour is shown to his system.⁶ Proficiency in it is only attainable through patient, regular practice extending over at least

¹ Letters from Russia and Greece are dated in the old (Julian) style, but traders usually add the Western style below; thus, $\frac{1}{2}\frac{9}{10}$ January.

² A person empowered to sign a letter *per pro.* is said to "hold the firm's signature." See further under 'Agency.'

³ As to the Post-office Regulations, see note below.

⁴ *Stenographie*; *sténographie*.

⁵ Dr. WORMELL, as cited by Mr. Quick, in notes on LOCKE's *Thoughts on Education*, p. 232.

⁶ It has been adapted to French, German, Spanish, and several other languages.

a year. Until the speed of 120 words per minute, or normal rate of speaking, is reached, there is no sufficient practical knowledge of the art. The highest speed on record seems to have been an average of 280 words per minute.¹

The time of a business man or his employee may be further economised by the use of a *type-writer*.² The highest rate of speed, we believe, that has yet been attained in setting up words by such an instrument was ninety words per minute,³ and this in lieu of handwriting at the rate of thirty words per minute.

§ 27. A copy of each out-going letter is taken on a damped sheet of tissue paper in a letter-press; and the Letter Book⁴ is 'posted' or indexed from day to day. An easy way of remembering how to address the envelope is to extend the flap upwards and to write on the part beneath it. The stamp should then be placed in the right-hand upper corner.

Incoming letters pass from a corresponding to a junior clerk, who docket them, that is, folds each lengthways, and endorses upon it the name of its writer, with its date, the date of receipt, and sometimes that of the reply. They are then bestowed in pigeon-holes, or are placed in the appropriate compartments of a case, which is periodically cleared as any drawer becomes full, its contents being then placed in a 'transfer case.'⁵

But clerical duties in respect of correspondence may not end here. The system applied to the digesting of a series of letters, used in Government departments and there called *Précis-writing*, has been adopted by some traders, and will

¹ An English achievement.

² The Remington instrument is in favour, as to which see HARRISON'S *Manual of the Remington type-writer*, or MORTON'S *Instructions on the Remington standard type-writer*. 'Type-writing' is in French *dactylographie*.

³ Accomplished by an American typist.

⁴ *Briefkopirbuch*; *copie-lettres*. 'Press copy' is *Abdruck*; *copie à la presse*.

⁵ Such, for example, as the apparatus patented by the Amberg Company.

probably come into general use in large houses, from the convenience it affords as regards rapid reference to correspondence on some particular matter, thrown into a brief connected narration of the leading points. A *précis* is a pithy analysis of original letters intermediate between such originals and an abstract of them. "The merits of such a *précis* are (1) to contain all that is important in the correspondence, and nothing that is unimportant; (2) to present this in a connected and readable shape, expressed as distinctly as possible, and as briefly as compatible with completeness and distinctness."¹

§ 28. We have yet to mention two processes of communication auxiliary to correspondence. The inland *telegraph*² and marine cables are mainly supported by men of business. For the sake of economy in particular, although also maintaining secrecy, firms that do business with distant parts usually employ their own code ciphers.

The following international abbreviations may be noted: F. S., *faire suivre*, to be forwarded; R. P., *réponse payée*, reply paid.

One of the most recent applications of electricity is the *telephone*,³ which is almost entirely used by men of business. A description of this, as of the typewriter and the telegraph, must be sought elsewhere.⁴

¹ From the Examination Syllabus of the Civil Service Commissioners.

² *Telegraph* (*Kabel*); *télégraphe*. ³ *Telephon*; *téléphone*.

⁴ For the rules and regulations respecting postal and telegraph business see *The Post-office Handbook* issued half-yearly, or *The Post-office Guide*, which appears quarterly. In the *Handbook* there is a useful table of "approximate time occupied in course of post from London to certain places abroad." (pp. 11, 13.) Cf. Bartholomew's *Atlas of Commercial Geography*, Map No. 13.

LESSON VI.

MERCANTILE PERSONS; CAPITAL AND ITS ORGANIZATION.

Legal Capacity — Capital — Organization of Business — Partnership — Corporations — Companies — Circulars and Advertisements.

§ 29. A SHORT statement of the rules of **legal capacity** in relation to business will complete our sketch of the general law of contract in England. This part of the topic determines the limits within which contractual rights and liabilities may arise and be enforced. Disabilities exist in respect of certain classes of persons.

Minors are persons of either sex who are under twenty-one years of age. They were by Common Law liable only for the price of 'necessaries' supplied to them. This is a relative term, embracing whatever is suitable to the particular person's social rank.¹ All other contracts made by them were 'voidable,' *i.e.*, they could either enforce or repudiate such at will. Their ratification of a contract on coming of age must have been in writing, according to an act of George IV. 'The Infants' Relief Act, 1874,' made absolutely void any contract for the price of goods other than necessities, or for the repayment of money lent, and any 'account stated,'² being an admission of liability.

¹ This as regards any litigated case is said to be a question of *fact*, to be ascertained or determined by the jury.

² See a later lesson under 'Debtor and Creditor,' *Infra* as to minors becoming partners.

Married women, before the year 1883, could, as a rule, only contract as agents.¹ But if a 'feme covert' had separate property, or was judicially separated from her husband, or had been granted a protection order by a magistrate, or if she resided within the city of London,² or if the husband was a felon, or had been absent for seven years without being heard of, she could contract as though she were a 'feme sole' or spinster. By the Married Women's Property Act, 1882, women married since that year retain contractual rights, and continue subject to liabilities in respect of their separate estate, so as to that extent to have the same status as that of unmarried women.

Lunatics are liable for necessities, and in respect of any contract of which they have had the benefit; but not otherwise.³

*Corporations*⁴ can only contract with reference to purposes for which they severally exist; all other engagements are said to be '*ultra vires*.'

Aliens cannot hold shares in British ships. Such persons if they comply with the conditions imposed by the Naturalization Act of 1870, may obtain a certificate of naturalization from the Home Office. Continuous residence and the intention to reside permanently in Great Britain are necessary.⁵

Bankrupts can enter into contracts, so as to be able to sue or be sued, but the trustee in each case may claim the benefit as part of the bankrupt's estate.

Felons are incapable of contract; business relations, however, may be directed on their behalf by their administrators or curators.

¹ And so for their husbands in respect of necessities, subject, however, to the husband's prohibition, and notice of such given to the tradesman.

² She must then sue and be sued in the Lord Mayor's Court.

³ So also for drunken persons.

⁴ See § 34 below.

⁵ Patents of naturalization were first granted in the reign of Edward VI.

§ 30. Before going on to discuss the relations assumed by those who, having full legal capacity, engage, or take part in, the operations of business, it will be well to look a little at the third factor of Production, command of which is necessary for those at least who 'set up' in business.¹

Capital² is any part of wealth which is employed in the production of further wealth: it is accumulated labour, consisting of so much wealth as is set apart for the maintenance of the workers, and the materials and tools used by them. According as this is consumed in each operation, or is continuously available, capital is 'circulating (floating)' or 'fixed.' Commercial and financial operations are characterised by the turning over, the immediate consumption, of the funds respectively employed; an industrial, by the fixity of its capital, which may consist in agricultural pursuits of fences, in mining of subterranean shafts, in manufactures of the factory itself, in transport of 'rolling stock' or ships. Fixed capital requires only occasional renewal. Besides money, floating capital is exemplified by raw materials and manufactured goods in stock.

In the course of the industrial history of the world, we may trace the gradual awakening of man to the forces of nature. First he turned to account the power of water, and next availed himself of wind. The application of steam wrought a revolution which was destined in turn to be surpassed by that of electricity.

The introduction of machinery and successive improvements in it have from time to time caused many heartburnings and resistance to the new order of things; but in most cases those

¹ This may range from a few shillings, as has been known in the cutlery trade at Sheffield, to millions of pounds, as in the construction of a large railway, but in either case there must be some basis to work from, which is the 'Capital' of the undertaking.

² *Kapital; capital.* The subject is treated of in WALKER, chap. viii., LAVELEYE, pp. 183ff.

who were hostile to change outlived their own opposition. The use of machinery does not, as the persecutors of Arkwright and Crompton or the Luddite rioters supposed, diminish the employment and wages of workmen. It cheapens products, and thus stimulates demand for more commodities, thus creating work either in the same or some new industry, such as construction of the machinery itself, for those whose services may be dispensed with in the old employment.

Capital is created by thrift: it is the result of *saving*. Hence we may expect to find much in our own country; and the fact that England is at the same time thickly populated does not in principle make the services of machinery to the productivity of capital the less valuable.¹ Whether, however, the 'Factory system' improved in all respects the condition of the labourers will have to be considered in another connection.

In the study of **Industrial Geography**, various countries should be compared with regard to their possession of the three elements of Production. Thus it should be observed that all the requirements of production are abundantly satisfied in the United States; and in England there is concurrence of Labour and Capital as far as can be wished, but an insufficient supply of land; whilst in the West Indies there is not enough labour, in India too little capital. We may again contrast countries with each other that make use of their own capital and that have to attract capital. English railway enterprise at home and in India together illustrate abundance of the national capital.

§ 31. Some technical terms connected with the organization of Business and the employment and combination of Capital

¹ The reader desirous of following this up might contrast what is said by J. S. MILL, in his *Principles of Political Economy*, pt. iv. 5, 2, with the views of a writer like MORTIMER of the last century, at pp. 105ff of his *Elements of Commerce*, which appeared at the commencement of the 'Industrial Revolution.

shall now receive explanation, and the rules of law applicable to such relations will be stated as briefly as clearness will admit of.

By 'firm'¹ is meant the person, or persons collectively, who direct any business as the proprietor or proprietors of it. The 'style' is the firm-name² under which individual producers and sole traders, or a limited number of persons whose joint capital is employed by them in a business of either description, carry on such business; whether it be the designation they use for the heading of their invoices, the signature with which they subscribe their letters and drafts, or otherwise.

§ 32. 'Goodwill'³ is the full and exclusive right to carry on some particular business, under a particular name, with all the benefits attaching to, or arising from, such right. A purchaser of goodwill is empowered to stipulate for the abstention of the vendor from operations of the same nature in the immediate neighbourhood of the place in question. Without this safeguard the purchase of a goodwill could rarely be effective.

§ 33. **Partnership**⁴ is by the Partnership Act (1890) defined as "the relation which subsists between persons carrying on a business in common with a view of profit."⁵

Ordinary trade partnerships⁶ represent that combination of capital common in retail business⁷ in particular, which enables two or more parties to operate on a scale greater than either or any one of them could attempt as a 'sole trader.' Not more than twenty persons can combine to form a partnership; and in the case of banks, the number is limited to ten.⁸

¹ *Firma; raison.*

² The expression employed in the Partnership Act, 1890.

³ *Geschäft; fonds.* The 'custom' as such is *Kundschaft; achalandage.*
Cf. *French Reader*, p. 24.

⁴ *Genossenschaft; association.*

⁵ Sect. I.

⁶ *Offene Handelsgesellschaften; sociétés en nom collectif.*

⁷ See the preliminary lesson on 'Trade.'

⁸ See further under 'Banking.'

Some of the partners may be 'working' and others 'dormant' partners.

Each partner, however, is regarded as agent for the rest, and is subject to unlimited liability for the debts of the firm incurred during the time of his being a partner.¹ An exception to this arises in the case of an association formed under the Companies' Act of 1867, of the same nature as a French *société en commandite*, the peculiarity of which is that only the directors are under unlimited liability.²

The presumption of the law is that enjoyment of a share of profit creates the status of partner; but this may be rebutted by absence of proof of any participation in the control of the business,³ as resulting from no intention to create such a partnership. If there is no such relation as that of principal and agent, there is no partnership.

In keeping with these qualifications,⁴ the codifying Act of 1890 distinguishes from partners (α) a person receiving out of profits payment of a debt by instalments, (β) a servant or agent remunerated by a share of profits, (γ) a widow or child of a deceased partner receiving a portion of profits by way of annuity, (δ) a person receiving interest on a loan varying with the profits, (ε) one receiving an annuity out of the profits in consideration of the sale to him of the goodwill of the business.⁵

A man holding himself out, or allowing others to treat him, as a partner, is liable for the partnership debts,⁶ although not for wrongful acts of the firm unless he is an actual partner;

¹ An 'infant' partner will be bound by the partnership accounts.

² The celebrated house of Baring was in the year 1890 reconstituted on the basis of this Act. *Sociétés en commandite* first arose in Italy as a means of evading the Canon Law upon remuneration for loans of money. *Commanditaire* is translated by 'dormant (sleeping) partner.'

³ Such as power, exercised or not, to make a periodical examination of the partnership books.

⁴ Determined, in particular, by the leading case of *Cox v. Hickman* (8 House of Lords' Cases, 268), and by Bovill's Act, 1865, which followed that decision.

⁵ Sect. 2.

⁶ Sect. 14.

and a retiring partner will be liable for debts contracted subsequently to his retirement, unless at the time of leaving he made known his withdrawal from the firm by a notice in the official *Gazette* published at London, or Edinburgh or Dublin, according to the requirements of the case, or in some local newspaper, or unless he has been discharged from such liability by an agreement between himself, the new firm, and the creditors.¹

The relations of the partners to each other are governed by the partnership agreement.² Subject thereto, each partner is *ex lege* entitled to take an active part in the business, to have access at any time to the partnership books, and to have the aid of his co-partners, who must act in the utmost good faith³ towards him, as by accounting for all gains made by them from partnership transactions. He must be indemnified in respect of payments made and personal liabilities incurred in the due course of business. No fresh partner may be introduced without the consent of each existing partner.⁴

The chief grounds of dissolution of a partnership, other than efflux of the time for which it was created, are (α) by act of law, as by death or bankruptcy of a partner, (β) by act of party, as by transfer of a share, (γ) insanity, or (δ) misconduct, as fraud, of any partner.⁵ On application by any partner, the Court may decree a dissolution of the partnership in certain cases specified in the Act, and "whenever in any case circumstances have arisen which, in the opinion of the Court, render it just and equitable that the partnership be dissolved."⁶

In the administration of the estate the partnership debts are paid out of the partnership property, and the individual debts of each partner out of his separate estate.

¹ Sects. 17-36. The last-named section also absolves the estate of a deceased or bankrupt partner, or a partner not having been known as such, from liability for debts contracted after the death, bankruptcy, or retirement respectively.

² Generally described as the 'articles.'

³ *Uberrima fides*.

⁴ Sect. 24.

⁵ Cf. § 34.

⁶ Sect. 35.

§ 34. A **Corporation**¹ is an artificial person, represented by an individual or by a plurality of members, upon which special powers are conferred. It can be created by the Crown only. There is no individual liability of the members for its debts.

§ 35. **Companies**² are formed with the purpose, as a rule, of carrying on more extensive business than can be attempted by ordinary partnerships. The following varieties must be distinguished. (a) Joint Stock Companies at Common Law, in which every shareholder is liable to an unlimited extent.³ (β) Registered Joint Stock Companies, the liability of some of which is unlimited, whilst others are 'Limited Companies,'⁴ from the liability of each shareholder being confined to the amount of his own shares, or to the amount guaranteed in the Memorandum of Association.⁵ These derive their position from statutes of the present reign,⁶ which prescribe what is essential to their formation, to the conduct of their business, and their dissolution. The capital is divisible into 'nominal,' being the whole amount authorised by the Memorandum of Association; 'subscribed,' which has been applied for and allotted; and 'paid up.'⁷ (γ) Regulated Companies, in which each member is admitted on payment of a fixed sum, and trades with his own capital, at his own risk.⁸ Such are the

¹ *Korporation*; *corporation*.

² *Handelskompagnieen*; *compagnies*. The abbreviation in French and German answering to our 'Co.' or 'Coy.' is '*Cie.*'

³ *Actiengesellschaften*; *sociétés en nom collectif*. French joint stock banks are usually designated *banques par action*.

⁴ A Company that has been first registered with unlimited liability may be registered afresh as limited, and *vice versa* (Companies' Act of 1879, § 3).

⁵ *Gesellschaften mit begrenzter Haftpflicht*; *sociétés anonymes*.—As to the different kinds of companies recognised by French Law, see *Code de Commerce*, art. 19; for like German companies, cf. ROTHSCILD, pp. 201-2.

⁶ Commencing with one of the year 1855, but the principal Act is that of 1862 (25 and 26 Vict. c. 89).

⁷ See further § 271 below.

⁸ *Gelegenheitsgesellschaften*; *sociétés en participation*.

Stock Exchanges, the business of which we shall describe in the Second Part of these Lessons. The original East India Company was of the same character. (δ) Chartered (incorporated) Companies, which are quasi-corporations, from time to time formed for commercial enterprises, founded upon special privileges. Such is the Bank of England. The 'Honourable East India Company,' as finally constituted, was of this nature; and similar companies exist at the present time, engaged in the exploration of foreign territories, under the auspices of the home government, which is represented by them in those regions. When the operations of a company are authorised by the sovereign power of the foreign country, and special powers are conferred by it, these are said to be granted by a 'concession.' (ε) Companies incorporated by Letters Patent under 7 William IV. and 1 Vict. These are not corporations, but partnerships.¹

§ 36. On the establishment of a firm, its dissolution or transfer upon the retirement or death of a partner, or admission of a new partner, a *circular*,² or identical and simultaneous communication, is usually employed, which is sent to other firms with whom a connection is contemplated, or who are already correspondents of that issuing the circular. It may be printed, lithographed, or type-written, at the option of the sender.

The method of *advertisement*³ is used chiefly by Mining, Railway, Shipping, and Insurance Companies, by Publishers, and by Retail Dealers. Advertisements vary much in style, according to the caprice of the parties interested in their success.⁴

¹ As to Syndicates and Trusts, see § 197 below.

² *Kundschreiben*; *circulaire*. See *Précis Writing and Office Correspondence*, ch. iii.

³ *Annonce* in F. and G.

⁴ *Précis Writing*, &c., U.S.

LESSON VII.

PRINCIPAL AND AGENT; EMPLOYERS AND EMPLOYED.

Law of Agency—Clerks and Assistants—Travellers—Apprentices—
Employers' liability.

§ 37. IN the last Lesson the position was discussed of principals in business. We have now to look at that of persons in a subordinate capacity. And first of Agents.

Agency¹ is a contract the legal incidents of which specially concern men of business, as "by far the most important and numerous of daily transactions are carried on by means of agents."² By this contract a person agrees to act for or on behalf and in the name of another. A maxim of the law is *qui facit per alium facit per se*. So that a person unable to act for himself, as a lunatic,³ may act through another. In some cases the law presumes an agency, in the absence of an express contract to that effect. Thus a partner, as we have seen, is regarded as agent for his co-partners.⁴ For certain purposes even a child living under his father's roof is treated as his father's agent. Hence a person precluded from binding himself may yet bind another.

The appointment of an agent is generally made by word of mouth, and so even in a *del credere* contract, by which goods are entrusted to an agent for sale by a foreign principal, the

¹ *Vertretung* ; *représentation*.

² STEVENS, *Mercantile Law*, p. 122.

³ Sect. 29.

⁴ Sect. 33.

agent undertaking, in consideration of a higher commission, to be personally liable in case the purchaser makes default in payment.¹ 'Procuration,' if it extend no further than the signing of letters, drafts, &c., may be conferred by writing unsealed; otherwise it must be by deed.²

The following are points of importance as regards the duty of an agent to his principal. (α) If the agent act in any matter at all, he must carry it through, being liable for the whole. (β) If his services are remunerated, he must exercise the care of an ordinary man of business; otherwise he is liable only for gross negligence. (γ) He cannot transfer his agency to another, except under necessity, or by leave of his principal, or by the usage of trade.

The principal is personally liable for all contracts made by his agent, which the latter was authorised to make, and even though the agent go beyond his authority, if the principal afterwards ratify the engagement. For any act of a *general agent*, however, the principal is liable, although it was not within the scope of his authority. For example, a man has been in the habit of allowing his servant to buy on credit, but forbids him to do so any longer. If the servant buy on credit again, even after he has been dismissed, the master is liable, unless the seller is aware of the master's prohibition. A general agent is one engaged in a particular employment, such as a clerk or domestic servant, as distinct from a *particular agent* appointed to do one or more specific acts only. Two tests can be applied in ascertaining to which category an agent belongs: (α) the extent of authority generally enjoyed by persons in that way; (β) the extent of authority the particular agent has been wont to enjoy. A *universal agent* is one employed to act in various employments, or in all matters on behalf of the principal.

¹ That this need not be in writing is an anomaly, for it is clearly a case of suretyship. See § 18 above.

² *Lower of Attorney.*

If an agent contracts properly, and in the name of his principal, he will not be personally liable, and he himself cannot sue on the contract, unless he have an interest in it; but the agent can enforce the contract if he acted as principal.

The principal is liable for injuries done by the agent in the execution of his duty. The agent himself is liable in every case.

The contract of agency may come to an end by the principal's revoking the agent's authority, subject to the rule that if he is a general agent, the principal remains liable to persons not aware of his losing authority; by the death or bankruptcy, and in some cases lunacy, of the principal; by mutual consent; and by accomplishment of the purpose, or expiration of the period, for which the agent was appointed.

The rules by which mercantile agents in particular are governed will be stated in a lesson on Sale.

§ 38. **Clerks,**¹ as already said, are general agents. A 'confidential clerk'² very commonly holds his principal's signature for letters and drafts.³ As for servants in general, the hiring of a clerk for service not to be performed within a year must, by the Statute of Frauds, be in writing. The expiration of a clerk's engagement, subject to any special usage of the trade, is governed by the way in which his salary is paid, a weekly, monthly, or quarterly payment carrying with it corresponding notice of the termination of the engagement. In some cases, however, a clerk, like all other servants, is liable to immediate dismissal: (α) for refusing to do, or incompetency to do work, even if through illness; (β) absenting himself from work without the master's permission; (γ) by death of either; (δ) by gross misconduct (drunkenness, &c.).

¹ *Commis* (*Kaufmann*); *commis*. — *Kaufmann* is used by Germans indifferently for 'merchant' and 'clerk.' The *F. commis* represents both 'clerk' and 'assistant.' Cp. the interchange of these terms in the United States.

² Or 'manager' (*Procurist*; *gérant*).

³ As to procuration, cp. note on § 25 a.

§ 39. **Travellers**¹ may belong to the firm's staff of clerks, and be remunerated by a fixed salary, or they may be remunerated by commission, or by salary and commission at the same time.² It is of importance to those who seek business abroad that they acquaint themselves with the foreign law concerned.

§ 40. The relations between a principal and his **apprentice**³ are governed by the apprenticeship 'indenture,' to which the intending apprentice is made a party, together with his father or guardian.

§ 41. This subject would not be complete without some notice of the liability of employers for injuries done to their servants in the course of discharging their duties.

Down to the year 1880, a master was bound to employ proper apparatus for the servant to execute his duty. In default thereof, or if through the master's negligence the machinery were defective, the master would be liable for injuries to the servant. If the injury should be caused through the negligence or misconduct of a fellow-servant, the master would not be liable, unless it were shown that through the master's negligence an incompetent servant had been provided. He would not be liable where the negligence was through a foreman delegated by the master to be the manager.

By the Employers' Liability Act of that year, a master was made liable to the same extent as if the servant were a stranger in the following cases: where the injury is caused by (a) defective machinery, &c, due to the negligence of the superintendent or foreman; (β) any negligence on the part of the

¹ *Geschäftsreisender*; (*commis*) *voyageur*.

² As to their efficiency for foreign trade, see § 173c below.

³ *Lehrling*; *apprenti*. By the Apprenticeship Act (§ 13 above) no person could follow any trade unless he had served a seven years' apprenticeship to it. In the recoil against such restrictions, modern *commercial* practice largely dispenses with apprenticeship of any kind; youths receiving remuneration, independently of the payment of a premium, before they have *learned* the business. Hence the inefficiency of English as compared with Continental clerks.

superintendent or foreman, or of the person having the power over an engine, points, or signal on a railway; (γ) the act of a servant in obedience to defective bye-laws and regulations made by the employers. Compensation is limited to three years' wages.

As the employer is liable only in respect of cases falling under this Act, much has yet to be done to bring English law on a level with that of other European states, which afford relief to the workman in regard to accidents befalling them in the ordinary course of employment.¹

§ 41*a*. A master's false representation as to character, to be actionable must have done the servant real injury.²

¹ See now, however, Workmen's Compensation Act, 1897.

² *Pasley v. Freeman*, in SMITH'S Leading cases, p. 66.

LESSON VIII.

EXCHANGE: INTRODUCTION TO TRADE.

Barter—Growth of Trade—and Meaning of the Word—Forms of Trade—
Speculation—Middlemen.

§ 42. THE branch of economics which has thus far engaged the reader's attention was Production; we are now about to enter upon that part of the Science which is designated EXCHANGE.¹

Primitive communities of men could not have been long in discovering that they had within their respective borders supplies of some natural products in excess of their own requirements and insufficient supplies of others, and would then conceive that the disproportion might be adjusted by means of Barter² between themselves and their neighbours.

This crude form of Exchange between any two persons³ is expressed in the words of another by, "each giving to the other something which he wants less, and the other wants more than the thing which the other gives to him."⁴

§ 42 a. Such natural causes of Trade continue to form the basis of its spontaneous development, which was, and ever is, influenced by the situation and configuration of any region, as well as by the richness or poverty of its soil. Thus the

¹ *Umlauf*; *circulation*.

² *Tausch*; *troc*. See WALKER, pp. 95 f., etc.

³ From what we know, however, of the early history of society, trade between individuals as such would seem to have been a later development.

⁴ LORD FARRER, *The State in its Relation to Trade*, p. 4.

geographical position of *Egypt*, its level surface, combined with the possession of a grand river not only fertilising but navigable, fostered the intelligence and stimulated the enterprise of its inhabitants, who had, moreover, an organized government. Such, again, were the conditions of trade in *India*, the natural advantages of which, while not the same as those of Egypt in respect of configuration, were great as regards maritime traffic, when account is taken of its rich supplies of timber for ships, and of the aid given to navigation by the monsoons. The *Phœnicians*, shut into a narrow strip of country on the Mediterranean sea-board, and having abundant material for ships, became the carriers of Mediterranean trade, which the Romans, with warlike tendencies, neglected; whilst the history of *Carthage*, herself an outgrowth of Tyre, illustrates the advantage of colonization for growth of trade. The further influence of political freedom is seen in the prosperity of the *Italian Republics*, frugality besides determining the prosperity of the *Dutch*. To a combination of all these elements of success, *England*, seat of Bonaparte's 'nation d'épiciers,' added security of property with its concomitant good faith, and freedom of exchange.¹

§ 42 *b*. When the factors of development of trade are known, it is scarcely necessary to enumerate the hindrances to its progress. Most of the influences at work in Spain, for example, being the opposite of those favourable to British trade, the decline of that country is easily explained. The continued backward state of some other countries, such as the Celestial Empire, is due to their repugnance to intercourse

¹ History shows that society is indebted to commerce for the way in which it has fostered intelligence, developed art and science, and promoted toleration of opinions. Although in the hands of the Phœnicians of old, and of our own people in later times, commerce was associated with strife, traders have for the most part been lovers of peace; so that Montesquieu could write that "Trade essentially allures to peace"; and President Garfield could say that it "makes all men a family of brothers."

with foreigners. This its neighbour Japan has overcome, and, with certain natural advantages, besides willingness to learn from others, the latter is now on the high road to prosperity.

§ 42 *c.* Freedom of Trade, as the basis of international division of Labour,¹ must be to the advantage of every nation that adopts it, for the system leaves to each the cultivation of those powers of industry for which it is most adapted. The poorest consumer in many lands, by reason of the currency given to Free Trade by British influence, may be daily reminded of its services to mankind through considering the commodities within his attainment. "The wool for his clothes comes from Australia; the rice for his pudding from the Indies; the corn for his bread from Illinois; the petroleum for his lamp from Pennsylvania; his coffee from Java; the cotton for his wife's dress from Egypt or Alabama; his knife from Sheffield; the silk of his necktie from France."²

§ 43. Barter still obtains in transactions between British, or other civilised, traders and rude tribes, like those in the Niger region, where cotton fabrics are exchanged for palm oil, or at Zanzibar, where English and Indian goods are exchanged for ivory, rubber, &c.

§ 43 *a.* The word 'trade'³ is equally appropriate to the primitive and to the civilised form of exchange, as it is always in principle an exchange of commodities, the money⁴ which is paid by the buyer to the seller being an equivalent for the commodity or commodities that he would otherwise acquire, if procurable, by way of barter. This term is etymologically applicable⁵ indifferently to Production (industry) and Exchange

¹ Hence called by Cobden "the international law of the Almighty."

² LAVELEYE, pp. 183 f.

³ *Handel; commerce.*

⁴ See preliminary lesson below on that subject.

⁵ One's path in life, *i.e.*, occupation. And so 'trade-winds': those which hold a certain *trade* or course throughout the year. CHAMBERS' *Etymol. Dict.*

(traffic), and is in fact so used by men of business,¹ but the sense attached to it in Economics, as becomes a science, is that of Exchange alone. The distinction between industrial and mercantile operations should be rigidly maintained.

§ 43 *b*. The word 'traffic' is now chiefly confined to its employment for the carriage of goods, as in railway traffic.

§ 44. In any intelligent discrimination of trade functions sub-division of employments must be very noticeable. The task of distinguishing the several forms of trade and the various classes of traders² at the present day may be accomplished by something like the following scheme.³

I. *In respect of the nature of the occupation.*

A. Trade in produce.⁴

(a) Wholesale. (b) Retail

B. The Money Market.⁵

(a) Banking. (b) Stock Exchange. (c) Insurance.

II. *In respect of the sphere of operations.*

A. Domestic or Inland.⁶

B. External or Foreign.⁷

III. *Traders according as they—*

A. Carry on business upon their own account.⁸

(a) Merchants proper. (b) Warehousemen.

(c) Tradesmen or Shopkeepers. (d) Stockjobbers.

B. Carry on business in behalf of others (Agents).⁹

(a) Factors and Commission Agents. (b) Carriers and Forwarders. (c) Brokers.

¹ Thus, such current expressions as 'iron trade,' 'shipbuilding trade,' and 'trade-unions,' reflected in periodical newspaper reports upon 'The state of trade.'

² *Handelsleute*; *commerçants*.

³ Cf. with the analysis here offered ROSCHER, *Nationalökonomik des Handels und Gewerbfleisses*, pp. 90-111. ROTHSCHILD, *Taschenbuch für Kaufleute*, pp. 240-242. MERTEN, *Manuel de sciences commerciales*, pp. 2, 3, 14-17.

⁴ *Warenhandel*.

⁵ *Geldmarkt*; *marché monétaire*.

⁶ *Inländischer Handel*; *commerce intérieur*.

⁷ *Ausländischer Handel*; *commerce extérieur*.

⁸ *Auf eigene Rechnung*; *pour propre compte*.

⁹ *Agenten*; *agents*.

§ 45. Wholesale¹ has naturally always commanded more esteem than Retail² trade. Retail, however, is a necessity. How could artisans, asks Adam Smith, find capital for their tools if that were needed for large stocks of food? The function of 'tradesmen' is "to select goods with judgment, buy them on the best terms, stock and sell them in small quantities, in such a way as to suit the means and needs of customers."³ The extension now given to retail is illustrated in a striking way by the business of 'universal providers.'⁴

§ 46. The word 'merchant,' according to modern English usage, should mean a wholesale trader; in particular, an importer or exporter. In Scotland it is still used for 'tradesman' likewise.⁵ Those engaged in foreign trade may be 'general merchants,' or may deal in some special class of goods, or trade with some particular region, as 'East India merchants,' for example.

§ 47. 'Commerce,' according to the best usage at the present day, is strictly applicable to foreign trade.⁶ A distinction obtains between 'general' and 'special' commerce.

The first comprises imports without regard to their ultimate destination, and exports regardless of their origin, whether this be home or foreign; the latter, imports intended for home consumption, and exports which are for the most part produced

¹ *Grosshandel*; *commerce en gros*.

² *Kleinhandel*; *commerce en détail*.

³ LAVELEYE, ii. 9, 9.

⁴ Such as the Civil Service Supply Association, and the Army and Navy Stores in London.

⁵ Compare the German *Kaufmann*. The French distinguish their *marchands* whose business is *en gros* by the designation *négociants*, recommended by Louis XIV.'s Council of Trade in 1701 as sole name for the higher grade of dealers. The Greeks distinguished rigidly between *ἐμπορος* and *κάπηλος*. The Romans used *mercator* for 'trader' in general; whilst our shopkeeper is represented in JUSTINIAN'S *Digest* by *institor*. Cf. note below.

⁶ Invariably in Acts of Parliament. The word comes from the Latin *commercium*, the elastic meaning of which survives in the French 'commerce,' divisible into *commerce intérieur* and *commerce extérieur*.

in the exporting country. This is a distinction which should be borne in mind when studying commercial geography.

§ 48. The qualifications 'active' and 'passive' as applied to foreign trade are best employed to distinguish the trade which any particular country carries on with its own capital and in its own ships from that in which it engages by means of foreign vessels respectively.¹ British external trade is characteristically 'active.'

§ 49. A distinction must be observed between normal and inordinately speculative business.² The word 'speculator,' which is pure Latin, denotes one who has a lofty and broad range of vision. "Those who engage in such business are as scouts who frequent paths unknown to the common traders and unexplored. Endowed with more imagination than others, they affect to find markets unperceived by their fellow-traders."³ Speculation in the modified sense of the word has always more or less characterised trade in general, as seen in the name borne by the old English rivals of the Hansa, the 'Merchant Adventurers,' and the expression 'adventure' still employed in respect of consignments of produce. As now developed in the Produce Markets, speculation has been organized and regulated to secure, as far as can be, discharge of the liability incurred. The volume of business of this kind transacted upon exchanges far exceeds that of normal business.⁴

§ 50. 'Middlemen'⁵ is a term used indifferently of some dealers, and all agents. A 'warehouseman' is a middleman, as between the manufacturer and the dealer who is in contact with the public. A banker, again, is an intermediary. The

¹ These terms have been sometimes used to designate export and import trade respectively.

² Such as exists in German between *Bedarfshandel* and *Spekulationshandel*. (ROTHSCHILD, i. p. 393.)

³ COURCELLE-SENEUIL, *Manuel des Affaires*, pp. 172 f.

⁴ See further under 'Contract of Sale.' (§ 177.)

⁵ *Zwischenperson*; *intermédiaire*.

tendency now is towards dispensing as far as is practicable with the services of middlemen, from desire to save expense under increased competition. In strictness every merchant is of course a middleman, as intermediate between producer and consumer.

A 'factor'¹ is strictly a selling agent, whilst a 'commission agent'² is rather a buying agent. But in modern practice each may be found doing the other's work also. Some commission agents, like bankers always, frequently carry on business upon their own account³ as well as agency business. Thus 'coal factors' commonly have a monopoly for their district of some particular kind of coal which they purchase from the producer at contract price, and resell to the ordinary dealers, in which they resemble warehousemen already spoken of.

A 'broker'⁴ buys or sells for others. Licensed produce-brokers in the City of London are precluded from trading on their own account.⁵

¹ *Faktor*; *gérant* (*facteur*). The Roman *institor* was sometimes only a factor. Cf. the *Italian Commercial Code*, Titolo xii., ch. i., § 2.

² *Kommissionär*; *commissionaire*.

³ And so one finds some traders calling themselves commission merchants. (F. *Négociants commissionnaires*.)

⁴ *Makler*; *courtier*.

⁵ Various parts of the present manual will severally afford an insight into the operations of each of the departments of business distinguished above.

LESSON IX.

OUTLINE OF THE HISTORY OF ENGLISH TRADE.

Celtic Britain—Saxon Britain—Norman Britain—English Mediæval Trade
—From Renaissance to Present Time.

§ 51. THE salient points in the mechanism of exchange having been exhibited, a glance may be taken at the history of British trade from the earliest times of which any record exists; but as was done in respect of industry we shall confine ourselves at present to its general features, so as to consider special topics in lessons respectively devoted to them.

For some three hundred years before the first Roman invasion of Britain the southern portion of the island had been notable for its supplies of tin and lead, which Phœnician traders circulated on the Continent. Britain also supplied the neighbouring countries of the mainland with corn, and it was from Gallic *mercatores* that Julius Cæsar, as he himself relates, obtained information as to Britain prior to his expedition.¹ In the time of Augustus, British exports, as we learn from Strabo, were precious metals, iron, corn, and wool. According to Tacitus, the town of Llundain, which the Romans made into a colony, was already a great emporium of trade when Suetonius entered upon his campaign.² From what we know of the benefits in general which accrued to Britain from the

¹ *Bell. Gall.*, bk. iv. c. *ad fin.*

² *Ann.* xiv. 33: "Londinium, cognomento quidem coloniae non insigne, sed copia negotiatorum et commeatum maxime celebre."

Roman occupation, it is certain that trade was promoted by the conquerors, especially by Agricola.

§ 52. Although the economic development of the country was retarded by the Roman evacuation, and with continued disastrous effect by the successive invasions of Teutonic tribes, the latter movements did but tend ultimately to increase communication with the Continent, as was notably the result of the restoration of order by Canute. The Anglo-Saxon 'caepman,' or merchant, is first mentioned in laws of the seventh century. Like the artisan, he belonged to the class of freemen called 'ceorls.' In harmony with the persistent usage of antiquity, which annexed much formality to transactions of buying and selling,¹ trade was conducted publicly before witnesses, who were the depositaries of local custom.

The foreign trade of Anglo-Saxon Britain was stimulated at the close of the eighth century by Charlemagne's commercial treaty with Offa, king of Mercia.

By the time of Alfred the chapman was a person of some importance.² The measures taken by that great monarch for the development and security of the country of course largely benefited trade, which was further definitely encouraged by his grandson Athelstan, whose laws embraced an ordinance whereby any trader who had made three voyages should be promoted to the rank of 'thegn.' The firm rule of Dunstan, which consolidated English unity, must have produced great expansion of internal trade; and as regards commerce it would appear, from recent researches, that a guild of foreign merchants³ existed at London already in the reign of Ethelred, if not earlier, during the lifetime of Dunstan. By the time of the Norman conquest an active trade was maintained between England and Ireland, to which reference is made in *Domesday*.

¹ As illustrated by the history of the Roman law of contracts.—See MAINE, *Ancient Law*, ch. viii.

² CREIGHTON, *Social History of England*, p. 6.

³ The original of the later 'Hanse.'

§ 53. The advent of the Normans¹ brought England for all purposes in closer connection with France; and her foreign connections, like those of western countries in general, received a mighty impulse from the Crusades, which had been promoted by traders who were injured by Saracen depredations. Although checked by the unsettlement in Stephen's reign, trade, both domestic and foreign, prospered under the fostering hand of the first Plantagenet, whose extensive Continental dominions opened the door still wider for English traffic.

At this time English internal trade was in the hands of *merchant gilds*, of which we have the first positive mention in the reign of William Rufus. These were organized like the *craft gilds*, already described in the sketch given above of English industrial history, but the 'merchant gilds' enjoyed the higher status. It was from them that municipal organization was developed, as charters were granted to towns only after these gilds had already begun to do some of the work later on vested in the municipal authorities.²

The foreign trade of the country had been concentrated in the hands of the German traders settled in London, who were the sole importers of corn and exporters of unfinished cloth. In the reign of Henry III., however, the recognition of the Commons as the third estate of the realm, which is itself an indication of the growing influence of the middle, or industrial and commercial class, had a marked effect on all English trade. An association of 'Merchants of Thomas à Becket' sprang up at this time. It seems to have been the original of

¹ Amongst other improvements introduced by them was the system of keeping accounts, and better weights and measures. In the Anglo-Saxon period trade was conducted before witnesses, who were repositories of local customs (cp. even modern Eastern usage, in THOMSON, *The Lana and the Book*, p. 579), hence no receipts were given for money paid.

² Amongst the provisions of Magna Carta of commercial interest is the section which guarantees to the cities, towns and boroughs the enjoyment of the privileges already granted to them.

the 'Merchant Adventurers' who come before us in the next reign. These, however, at first took rank after the 'Staplers,' or privileged merchants trading in the staple commodities of the realm, raw wool in particular, at certain marts in England and in Flanders, which were the staple towns. The recognition of the Crown was given to this last mentioned class at the beginning of the fourteenth century, and they maintained their position throughout the reign of Edward III., the 'father of English commerce,'¹ the 'Merchant Adventurers' in the meanwhile consisting of those traders who were not staplers. The claim of Edward III. to the French crown, as a motive for the commencement of the 'Hundred Years' War,' was mixed up with the position of the staple towns in Flanders, whence Edward drew much of his revenue; they were open to attack from his French rival.

Domestic trade was of course checked by the feudal structure of English society down to the close of the Wars of the Roses; but 'villeins'² who wished to turn traders were allowed to do so upon commutation of personal service; and as the feudal ties were gradually relaxed, trade grew in proportion. The rising of the villeins in the reign of Richard II. is a landmark in this connection.

Henry V. was the first English king of his dynasty to have an effective navy for the protection of commerce: in his time we find not only a brisk trade maintained between England and Genoa, but a merchant fleet owned by the Canynges of Bristol.³

In the reign of his son the 'Merchant Adventurers' have already gained upon the 'Staplers,' so far that the former

¹ HALLAM, *Middle Ages*, iii., 321. Hume criticised the claim of this king to the title, but Professor Brewer, Hume's last editor, has indorsed it. In his reign English navigation extended to the Baltic, and trade with the Mediterranean (Venice) began to assume importance.

² Sprung from the old Saxon 'ceorls' (supra).

³ FOX BOURNE, *British Merchants*, c. iv.

engage in the cloth trade with Antwerp. The first Yorkist king gave impetus to trade by engaging in it himself, but the power of the Hansards is still noticeable from the fact that, by the commercial treaty of Utrecht concluded with them, Edward IV. confirmed the privileges of these rivals of the 'Adventurers,' and conveyed to them the enclosure within the City of London, which was thenceforth called the Steelyard.¹ The chief British company of traders, however, was incorporated in the reign of the first Tudor, by which time the export trade in manufactured woollens was chiefly in their hands. The same king's treaty with the Duke of Burgundy, called 'Magnus Intercursus,' as also those with Denmark and Florence, attest his solicitude for the country's trade. The discovery of America and of the sea route to India at this time rendered it possible for English trade to become oceanic in either hemisphere.

In the last year of Mary's reign, Chancellor reached Archangel; and by the command of her successor, the last Tudor, trade relations were opened by him with the Czar of Muscovy, which led to the formation of the 'Russian Company.'

§ 54. The reign of **Elizabeth** is a great landmark in English commercial history. This illustrious queen, of penetrating sagacity, seems to have realised the significance for England of its central position in oceanic trade. Until the achievement of Columbus, Britain was regarded as the extremity of the world.

In the time of Henry VIII. trade with Brazil had been commenced from Plymouth by the elder Hawkins. Elizabeth set about the creation of a colonial empire, strengthened her fleet, and promoted the work of Drake in opening up the southern seas.

The establishment of the trading companies associated with

¹ *Staeckhof*. It stood on the site of the South Eastern railway station in Cannon Street.

the coast of Guinea,¹ the Levant,² and still more the East,³ figure amongst the annals of her reign, one of the closing incidents of which was the expulsion of the Hansards from England, and closing of the Steelyard.

In the reign of the first Stuart we find the 'Merchant Adventurers' settled in Hamburg, where a large part of the local trade passed into their hands, which is still held by their descendants. The work of colonization through peace and war continued its course through this and the following reign.⁴

The spirited policy of Cromwell was a revival of that of Elizabeth.⁵ To him we owe in the first instance our possession of the carrying trade of the world, then wrested from the Dutch. The incidents of the 'colonial system' we must pass over until they are treated of under the head of 'Revenue.' We may, however, note here the vastly increased wealth of the country by the time of the accession of James II., indicated as it is by the large annual sum of £2,000,000 voted by Parliament to the king. His grandfather, eighty years earlier, had received but £50,000 per annum.

The accession of William III. could from an economic point of view only strengthen England's position. The foundation, moreover, of the Bank of England, in connection with his campaigns, marks the initiation of that system of credit which,

¹ The voyages of the younger Hawkins brought this about.

² As the result of a treaty between the 'virgin Queen' and the Sultan 'Solyman the magnificent,' by which she was allowed to establish factories in Asia Minor.

³ 'East India' meant from the Cape of Good Hope to the Straits of Magellan.

⁴ The first British factory set up was that at Surat in 1613; those at Madras and Hoogly dated from 1639 and 1640 respectively. Thus the international competition in trade of the two peoples shifted its ground, only to be brought back to our shores in the closing years of the nineteenth century, under conditions that could not have been predicted three hundred years ago.

⁵ SEELEY, *The Expansion of England*, p. 112.

entering characteristically into the framework of modern British trade, will be described in several lessons of the present series.

The Asiento contract and other provisions in the great treaty of Utrecht, closing the wars ostensibly waged over the 'Spanish Succession,' but intimately connected with the commercial rivalry of nations, left England in command of increased influence in the trade of the world.¹

§ 55. The 'Seven Years' War,' always to be associated for Englishmen with the fame of the elder Pitt, which grew out of the dispute as to the 'Austrian succession,' was one of the chief events which are inseparably connected with our present subject. It gave us commercial supremacy in the new world, contemporaneously with a commercial empire in the East, just as a little later that 'Industrial Revolution,' before the reader in an earlier lesson, which was accomplished entirely within our own borders, gave us manufacturing supremacy. Bonaparte, by his 'Continental System,' sought to destroy at least the former by prohibiting the admission of British ships to ports under his influence, but the final result of the wars in which he bore so great a part, manifested the solidity and power of the British Empire, as founded upon commercial prosperity, so unmistakeably that our position has never since been questioned, although there may be nations which would fain deprive us of it. The wealth gained by this country in earlier periods had enabled England effectively to withstand the blow aimed at herself prominently amongst the other nations of Europe.²

The Dutch Wars, the War of the Spanish Succession, the

¹ The Methuen Treaty between England and Portugal which preceded this will form a subject of remark elsewhere.

² The effect as regards the Continental countries was of course that the prices of Colonial and British manufactured products became such as to cause distress to the countries concerned. It will be found, indeed, that all our wars have been fought by the aid the industrial portion of the community has afforded.

Napoleonic Wars, the Wars in China and Ashantee, all remind an English student what a price has been paid for this supremacy. But British trade is now built rather on a peaceful than a war-like policy: it has been enormously increased by the acceptance of Free Trade principles, which remains undisturbed after more than fifty years' trial.

§ 55*a*. British trade has during the present century been much stimulated by the activity of Associations of Traders called 'Chambers of Commerce.' The earliest of these was the Glasgow Chamber, founded in 1783; the Plymouth Chamber dates from 1813; the Manchester Chamber, associated with the work of Huskisson and Cobden, followed in 1820; the Liverpool, Leeds, and Bradford Chambers have done good work in severally promoting Commercial legislation. The Association of Chambers of Commerce dates from 1860; the London Chamber from 1881.¹

¹ The general objects of the London Chamber, as stated in its Prospectus, are to promote the trade, commerce, and manufactures of London in particular, and of the United Kingdom in general. It acts as an intermediary between the commercial community and the Government, Parliament, and public bodies generally in all matters affecting their interest, and co-operates with home and colonial chambers in effecting their common objects.

LESSON X.

*BAILMENTS, AND THE CARRYING TRADE IN PARTICULAR.*¹

Pledges—Liens—Innkeepers—Inland transit—Law of Common Carriers—Rivers, Canals, Railways—Maritime Traffic—Shipping and Shipping Contracts—Economic Services of Transport.

§ 56. THE Carrying Trade² is the medium by which the service of commerce to Society is made effective. As the contract of carriage is one of the class in English law called *bailments*, it will be desirable, before entering definitely on the subject, to look a little at such contracts in general.

A 'bailment' is the delivery of goods to a person for some particular purpose, so as to vest in him the possession without the ownership. It is of three kinds.

(1) Bailment for the benefit of the bailor, or person making such delivery, (a) *deposit*, i.e., gratuitous caretaking of goods, (β) *mandate*, i.e., doing things gratuitously, other than caretaking of goods. The bailee, or person to whom delivery is made, is liable for wilful wrong or gross negligence.

(2) Bailment for the benefit of the bailee³—gratuitous loan. As it is for the bailee's benefit, he is liable for the utmost diligence.

(3) Pledge; letting and hiring of goods; bailment of goods to be mended, hired, or carried for a reward. As these bail-

¹ See *Précis Writing*, &c., ch. v.

² *Transportgewerbe*; *industrie de transport*.

³ The *commodatum* of Roman Law (*Dig. bk. xiii. tit. 6*) and 'commodate' of Scots' Law.

ments are for the benefit of both parties, they are alike liable for the utmost diligence.

Pledge,¹ in particular, is a delivery of goods to be held by the bailee as a security for money due. The pledgee is entitled to sell the goods after he has given reasonable notice, and to pay himself out of the proceeds, handing any balance to the pledgor. The pledgee is liable for loss, but not for accident. He is bound to return the thing on tender of the money due.

§ 57. A *lien*² is a right to hold possession³ of another's goods as a security for money due from the owner of the goods to the person who has the possession of them. The latter can only retain, not sell them. The lien may be lost by giving credit, by parting with the possession of the goods, or by acceptance of security.

Liens are of two kinds, 'particular' and 'general.' A *particular* lien is one in respect of money due for the goods. It may be claimed by a person selling such goods for cash, by a carrier for his charges, by a craftsman for work done upon the thing until paid respectively. A *general* lien is one on goods in respect of any money due whether for those goods or not. Thus, a banker has a lien upon the papers or effects in his possession for the amount of a customer's overdraft or other debt of the latter to him. Such a lien is also allowed to an innkeeper.

§ 58. By an 'inn' is understood in Law a house for travellers, where board and lodging are supplied; so that a restaurant does not come under this head. An innkeeper's liability is governed by an Innkeepers' Act (1863), according to which he is not liable for loss or damage to the goods of a guest beyond the amount of £30, except for horses and

¹ *Verpfändung*; *gage*.

² *Zurückbehaltungsrecht*; *droit de retention*.

³ Possession is obligatory except in respect of a maritime lien (as for pilotage or salvage).

carriages, unless (1) the goods have been lost or damaged through the wilful negligence of the innkeeper or his servants ; (2) the goods have been deposited with the innkeeper for safe custody ; or (3) he has omitted to put in his hall a correct copy of that portion of the Act which affords him protection. A later Act (1878) empowers the innkeeper to give effect to his lien by selling the goods, subject to notice given by him as therein provided. The guest is entitled to any surplus after the innkeeper is reimbursed.

§ 59. *Inland* transit may be effected by means of porters, as in Equatorial Africa ; by camels, pack-horses, &c., according to climate or other natural conditions ; by vans and wheeled carriages in general ; on tracks, ordinary roads or railways ; and by boats or barges on rivers or canals. *Sea-borne* traffic requires, of course, ships of various kinds. We shall confine ourselves to those means of transport familiar to dwellers in the British Isles at the present day ; in this lesson discussing rather the history and the law of the subject.

§ 60. A 'common carrier,' in English Law, is one who carries by land or water the goods of others, such being a distinct occupation, and not dependent on any other business. His rights and liabilities are that (1) he has a lien on the goods he carries, and (2) he is entitled to be paid in advance ; (3) he is only bound to carry goods that he generally carries ; (4) he is liable for delay ; (5) he is liable for loss or damage to goods except caused by Act of God, the king's enemies, or any default in the goods carried.¹

§ 61. The history of Transport forms one of the most interesting portions of the general history of trade. It is this which is prominently before the mind of any one studying the great features successively of the traffic of the Phœnicians in antiquity, of the Venetians in the Middle Ages, of the

¹ Forwarders (*Spéditeurs, commissionaires*) are governed in England by the Common Law of carriers, but in continental countries by special regulations.

Dutch in modern times. The blow that the first Napoleon aimed at British commerce was directed chiefly against our carrying-trade as the principal source of both the wealth and influence of this country.

The possession of facilities for safe and rapid communication and transport is prominent amongst the advantages which one country may have over another economically.¹ England early distinguished herself in this respect, and notably in the provision of Magna Carta which secured to foreign merchants free access to all parts of the kingdom. In this country, as elsewhere, traders had for long to reckon with freebooters, but, from greater comparative internal quiet, to a less extent than in most countries. Already in the time of Edward I. we find the legislature concerning itself² with the condition of the *highways*; but, with the exception of those which had been made by the Romans, the roads down to the Stuart period were nothing more than tracks, along which goods were carried by ox or ass, and, as civilization advanced, by pack-horses tethered together. Roger North, writing in 1676, some time after the establishment of the Post, says, "All is horse-carriage," that is, in town as well as country. Wheeled conveyances seem to have come into partial use in the reign of Henry VIII., but passenger coaches were still uncommon at the end of the seventeenth century. At the accession of George III. there was only one regular monthly mail-coach between London and Edinburgh, and stage-wagons were then the only means of transport of bulky and heavy goods. The last quarter of that century had set in before one-horse carts for lighter traffic came into use.

An improved system of road-making was developed in the Highlands after the rebellion under the young Pretender, but to the present century belong such improvements as those inaugurated by Telford and Macadam at the end of George

¹ It forms an important subject of 'Commercial Geography.'

² In the Statute of Winchester (1285).

III.'s reign. The one distinguished himself by the skilful construction of the Menai Suspension bridge; the other, by the use of broken granite as a layer over the natural soil, showed how level and permanently-good roads could be had. By the beginning of the present reign, some 25,000 miles of turnpike roads were distributed all over the country.

§ 62. By the Land Carriers' Act (1831) a common carrier is not liable for the loss of or damage to goods over the value of £10, unless the nature and value of the goods be declared, and a higher rate be paid, provided that the carrier has put in his office a notice claiming the higher rate, but he is not protected against his own negligence or the felonious act of a servant.

§ 63. *Rivers*, as trade routes, have always rendered invaluable service to the development of civilization, especially as affording convenience for the transit of heavy goods. Towns have sprung up at points where the navigation of a river became no longer possible or practicable. The supreme importance of some rivers, such as the Hoangho, Ganges, and Euphrates, the Danube, Congo, Mississippi, and Amazon, in their respective countries, at the present day will need attention in the study of Commercial Geography.

§ 64. The artificial waterways which go by the name of *canals*,¹ besides supplying the place of rivers, render such as are connected by them more efficient for the purposes of transport. Thus, in France communication has been established in this way between the Mediterranean and the Channel. In England canals connect the four great ports—London, Liverpool, Hull, and Bristol. They are preferred for the carriage of heavy goods.

The first canal made in England was Brindley's, to connect the Duke of Bridgwater's collieries at Worsley with Manchester. It was completed in 1761. The greatest achievement to the

¹ As to ship-canal and ship-railways, see CHISHOLM, *Elementary Commercial Geography*, *ad init.*

present time in the way of canal construction is the Suez Canal, completed in 1869, by the French engineer, M. de Lesseps. His scheme for a like canal in the Isthmus of Panama collapsed.

§ 65. The economic importance of the trade routes so far noticed is quite incommensurate with that which attaches to *railways*. The network of lines that covers our country has produced enormous development of internal trade within the present reign, whilst the vast amount of capital invested in them is evidence of the national resources.

The course of any railway is traced by traveller and student alike for the trade centres tapped by it. Traffic returns, recorded in the London daily papers, are significant for the growth or decline of trade between such centres.

In some countries the railways are entirely under the control of the Government. The balance of opinion as to the advisability of bringing British railways under State management is strongly against it.¹

§ 66. By the Railway and Canal Traffic Act of 1854 railway and canal carriers are not liable for animals over £50 unless the higher rate be paid. Railway Companies are liable only for negligence in respect of passengers' luggage, if labelled, when it is put in the luggage van, but are liable to the full extent if it is placed there.

§ 67. The first railway opened in England was that between Darlington and Stockton (1825), followed by the Liverpool and Manchester line (1830), contemporaneously with one in Massachusetts. Then came the line between London and Birmingham, which when extended acquired the name of the

¹ A question affecting the welfare of British Trade is that of railway rates, which has been the subject of a Government inquiry. Under the Board of Trade supervision there has been a general revision of rates in view of international competition. The further reduction of the rates and consolidation of the charges would be very beneficial to the general community of British traders.

London and North Western Railway. One of the most recent triumphs of railway enterprise is the Canadian Pacific line. Amongst the greatest would be the successful completion of the proposed line from Mombassa to Victoria Nyanza, or the Trans-Siberian railway to Vladivostok. The Chinese seem at last to have overcome their dislike of railways ; whilst the ruler of Siam has of late actively promoted the construction of one in his dominions.

§ 68. It is in *maritime* traffic that the chief interest of transport centres for an English reader, because that makes foreign trade possible for an insular people.

Here, as in connection with other means of transport, opportunities will arise for the study of trade routes, including those determined by the season of the year in which the voyage falls. The speed with which long voyages are now made illustrates the perfecting of modern improvements. At the end of the year 1889 it might be observed that one of the Castle liners had made the passage from a London dock to Capetown in five hours short of 18 days ; in the summer of the year following that the *Teutonic* had registered a trip from Queenstown to Sandy Hook in five hours short of 6 days, at an average speed of 20.175 knots.

The rivalry for quickest runs maintained on the Atlantic between Belfast and Clyde-built steamers goes on likewise in passages from London to Australia through the Suez Canal, the opening of which has specially benefited traders that send goods to or from those distant colonies, which can be delivered in about a month from their despatch.

§ 69. By the Merchant Shipping Act of 1854 every British ship must be registered in some port of the United Kingdom, and can only belong to British owners. English legislation in this sense dates from the early Plantagenet period.¹ In the reign of Edward III. the export of material for ships was prohibited. The first 'Navigation Act,' restricting the

¹ See MACPHERSON, *Annals of Commerce*, i. p. 344.

coasting trade, was passed in the reign of Richard II. The most notable measure of this kind was the Order of Council at the beginning of the Commonwealth, forbidding trade with English colonies in other than English ships, or ships of the country of which the cargo was natural produce,¹ followed by Cromwell's Navigation Act extending this prohibition to trade with the mother country.

The Act of 1651 was confirmed at the Restoration by that of 1660, whereby it was laid down that the master and three-fourths of the mariners should be English subjects. After being modified in 1823, the Navigation Acts were partially repealed in 1849, and finally, in 1854, by the Merchant Shipping Act of the latter year withdrawing the limitation of the coasting trade and fisheries of British colonies to the British flag.

Notwithstanding that such restrictions have been now for forty years removed, the ever-continued strength of our mercantile marine may be gathered from the fact that of the tonnage 'cleared'² in British ports in 1891, 76 per cent. was British, only 24 per cent. foreign. More than one-half of the world's ships carry the British flag.

69*a*. The coasting trade of the United States is conducted mainly by American ships, as a result of legislative measures affecting the sea-board of the great Republic. American shipping, however, according to United States Government statistics for the year 1890, would seem to have an ever-decreasing share in the Transatlantic carrying trade. Twenty years ago more than one-third of the European traffic was borne by American vessels; in the year just mentioned, only about one-eighth. There were no clearances of American steamers to Germany, France, or the Netherlands, and no entries of United States vessels from Germany, France, or Spain.

¹ Blackstone attributes this policy to the desire to counteract the royalist sympathies of some colonies, such as Virginia and Barbados. (*Commentaries*, vol. i., p. 418.)

² See Part ii., under 'Transport.'

§ 70. A British ship is considered as divided into sixty-four shares, which may be held by any number of persons not exceeding the same number; and any number of persons not exceeding five, and subject as aforesaid, may register as owners of one or more shares jointly. A transfer of a ship or share in one, or a mortgage thereof, must be by deed, called a 'bill of sale,' and must be registered in the port to which she belongs.

'Bottomry'¹ is a mortgage of a ship as a security for money raised for the purposes of the vessel only. The owner of the vessel is also personally liable.

'Respondentia' was a loan on the cargo of a vessel, but it is now the same as bottomry. The captain may borrow money to complete the voyage, but he only has this power when he is not in a port of the country where the owner lives, or has an agent who is able and willing to supply the money.

Carriers by sea are specially protected under the Merchant Shipping Acts of 1854 and 1862. They are not liable where any loss is sustained through the fault of the pilot if the employment of one is compulsory, or for loss through fire, or as regards certain valuable articles through robbery or embezzlement happening without their fault, unless notice has been given to the captain. By the act of 1862 they are not liable for loss or damage beyond the amount of £28 per ton of the ship's capacity.²

§ 71. In course of time the sea has been made subservient to man's requirements to a degree not far short of the advantages afforded by the land. Ocean voyages ceased to be impracticable when the mariner's compass came into use in mediæval times; and the discovery of the art of tacking, which seems to have been unknown to the Northmen, overcame the obstacle of a contrary wind. Within a recent period better acquaintance with the action of winds and currents, and the replacement to a large extent of wooden by iron vessels, have brought navigation to an extreme pitch of excellence.

¹ *Bodmerei; contrat à la grosse.*

² The law of shipping has now been consolidated by the Merchant Shipping Act of 1894.

§ 71a. The Postal Department affords facilities for transmission of samples or parcels of merchandise within certain limits by both land and sea.

§ 72. The carrying trade aids the production of wealth so much that it imparts to some things of no use in one part of the world the whole of the great value they may possess in another. By means of it different nations serve each other's interests, and particularly in the diffusion of human knowledge. Improvement in transport, by economizing cost of carriage, not only gives larger profits to first producers, but enables manufacturers to buy raw materials at lower rates, thus stimulating production all round; and as more and more goods come to market, prices to consumers are proportionately lower.¹ Greater facility of transit also equalises prices. In the year 1390 wheat was 16s. 8d. a quarter at Leicester, but only 10s. at London;² in the year 1890 there would not be more than a fractional difference between the two places. Similarly, from difference in the freight alone, Danubian maize brought to Scotland becomes but slightly dearer at Aberdeen than it would be at London if brought to the Thames. The difference of port charges and harbour dues also affects price.³

§ 73. Usage everywhere acknowledges the right of capture by one belligerent of merchant ships carrying the other's flag, unless within the territorial waters of a neutral power. The ships of neutrals are liable to capture by either belligerent for breach of blockade proclaimed by it, or for carrying contraband of war. On the other hand, the Treaty of Paris settled that a neutral ship carrying an enemy's cargo shall be exempt from capture by either belligerent, and that privateers should thenceforth not be allowed any right of seizure.⁴

¹ LAVELEYE, *Elements of Political Economy*, ii. 9, 7.

² CUNNINGHAM, *Growth of British Industry*, p. 285. (1st edn.)

³ The subject of transport will be resumed in Part ii.

⁴ The old right of search of neutral ships, insisted upon by Great Britain, led to the 'Armed Neutrality' of the Northern Powers against her (1780), and to the American War of 1812.

LESSON XI.

MONEY, AND THE MONEY MARKET—PRELIMINARY.

Money, a Measure of Value and Medium of Exchange—Bullion—Coinage
—Currencies—Monometallism and Bimetallism—Exchange of Money
—Value of Money—Paper Money—Moneys of Account—History of
British Coinage.

§ 74. THE subject of the lesson upon which the reader now enters will be the operations of the *Money Market*,¹ or what at the present day is loosely called 'Finance.'

MONEY² is itself a commodity, and is characteristically the means by which the circulation of other commodities can be accomplished.

Reference has been made at the beginning of Lesson viii. to barter as the simplest form of exchange, in which one commodity is given for another by a single operation. As men's wants and experiences widened and deepened, inconvenience must needs have been felt from the restraint upon exchange imposed by inequality of values, by a man's ignorance at one time of the true value of the thing offered him in exchange for that which he could dispense with, and by the impossibility or impracticability at another time of dividing one of the articles which might otherwise admit of being exchanged. Again, a man would sometimes have to rely upon

¹ See § 44 above.

² *Geld*; *argent*. Our English word is derived from the Latin *moneta* (cp. Anglo-Saxon *mynet*), which was a sobriquet of Juno, in whose temple at Rome it was coined in the republican period.

perishable articles in his possession for something else which he needed more, and might be unable to effect an exchange in time. Hence recourse was had to some third commodity serving in the first instance as a *measure of the value* of each several commodity, some ascertained proportion of which, as divisible, one of the parties in the character of 'buyer' should give to the other as 'seller' for what the latter parted with, and as a resulting *medium of exchange*, the seller himself in turn, by means of such portion of the divisible commodity, acquired from a third person some article needed by him. Various prescribed substances have been used for this purpose, such as salt,¹ still in the interior of Africa, shells in India, leather at Carthage, iron in Greece, copper at Rome, slaves or cattle² by several nations, wheat in early England. It was found, however, that the precious metals far surpassed all others in the possession of properties required for money, the chief of which are that it should be divisible, portable, durable, and stable in value.

§ 74a. *Bullion*,³ as used of the precious metals in bars or ingots, is a designation which comprises plate, and foreign coin sent to this country,⁴ where it is not current, but will sometimes be melted down for the purpose of recoinage. Bullion dealers and brokers form a special class of traders. It has been estimated that the stock of silver held in England

¹ Cf. the expression to be 'worth one's salt.'

² The association of oxen with money goes back to very early times, as readers of Homer, for example, may remember. The Latin *pecunia* is connected with *pecus*. There are traces of this association in the records of *Domesday*, as in the return from the village of Milton (cited by CUNNINGHAM, p. 101), where there is said to be *pastura ad pecuniam*.

³ *Ungemünztes Gold (Silber), fremde, ungangbare Münze; or (argent) en barres*. For the origin of the English word see BITHELL, s.v.

⁴ As commonly in the course of trade, French Napoleons, American dollars, Japanese yens, &c. The word is sometimes loosely used of British coined money, as in 'drain of bullion.' Coined money (*gemünztes Geld; espèces, numéraire*) is designated 'specie.'

for purposes of merchandise is more than double the amount of silver money.

Bullion designed for coinage is invariably taken to, and purchased by, the Bank of England, where the price of £3 17s. 9d. is given for an ounce of *gold*. The full price would be £3 17s. 10½d., as fixed by the Coinage Act of 1816; the difference, called 'demurrage,'¹ is deducted by the Bank in consideration of the convenience afforded to the seller, who would only receive the coined money after some three weeks' delay. Silver is taken by the Mint at its market value, which at the time of our writing is no more than about 2s. 4d. an ounce.²

§ 75. The first thing to remark in regard to the currency or 'circulating media' of a country is, that the right of coining is by the leading nations of the world vested in the Crown or other supreme authority, whose stamp impressed upon each coin³ is a guarantee of its being of standard metal and requisite weight. The operations are conducted at the Royal, Imperial, or State Mint,⁴ as the case may be. 'Standarding,' or testing gold to determine the degree of its purity, is the work of assayers. None of our money is entirely 'fine.' Standard gold contains one-twelfth alloy,⁵ the rest being generally copper. Standard silver likewise has an alloy of copper, in the proportion of three-fortieths to thirty-seven fortieths of fine metal. But for the alloy in either case the metal would be too soft. Our copper coinage, represented by

¹ For another use of the word see under 'charter party.'

² Before 1817 it was 5s. The lowest rate touched (1897) has been 2s.

³ The word is derived from the Latin *cuneus*, either as meaning the die employed, or the wedge of metal itself.

⁴ *Müntzgebäude*; *Hôtel des Monnaies*. Besides the British Mint on Tower Hill, London, there are branch establishments in some colonies, as in Australia.

⁵ Two *carats* out of twenty-four, so that the sovereign is 'twenty-two carats fine.' Jewellers' gold contains three times as much copper as that in gold coins.

bronze, is composed of ninety-five parts of copper, four of tin, and one of zinc.¹

The alloy authorised to the Paris and Washington Mints is one-tenth for gold and silver alike.

The master of the British Mint is allowed a departure of one-sixteenth of one carat out of twenty-two, and of twelve grains in the pound troy from the standard fineness and weight of gold, and four parts in a thousand from that of silver, to cover imperfect work. This last is called the 'remedy.'²

Every year, by a ceremony called the 'Trial of the Pyx,'³ the work turned out by the British Mint is scrutinised, to ensure conformity to the standard. Trial plates and imperial standard weights, in the custody of the Warden of the Standards, an officer of the Board of Trade, are used for testing and weighing sample coins.

Deterioration of coins in circulation may arise from attrition through long use, as with the pre-Victorian 'light gold' lately called in,⁴ or by clipping, a vicious practice of course stimulated by neglect of weighing money through prevalence of payment by tale, but effectually prevented in modern times by the use of milled coins, such as those issued from our Mint for two hundred years past. By English law, any one to whom light gold is tendered may cut or deface it, so as to withdraw it from circulation.

It is part of the work of banks, of which we shall have to speak more particularly later on, to supply good money.⁵ Such service was rendered notably by the first Italian banks;

¹ Money made altogether of base metal, current in some parts of the Continent, is called *billon*, the same word being also used for 'token money.'

² And so at both the French and Imperial German Mints there is an allowance called *tolérance* and *Toleranz* respectively.

³ The 'pyx' is the name given to each of the boxes containing specimens of gold and silver coins respectively.

⁴ By an Order of Council under the Coinage Act of 1889.

⁵ See § 97 below.

and until the formation of the German Empire, there was a distinction made at Hamburg and Lübeck between *Bankwährung*, in which bills of exchange were paid, and *Courantwährung* or common currency.¹

§ 76. British standard money is gold;² the rest of the coinage is 'token money.'³ The cost of coining gold is a charge upon the Revenue. Through the present great 'depreciation' of silver,⁴ token money of that metal can be issued in England at a higher rate than its real or market value; that is, at a nominal value of 5s. 6d. per ounce,⁵ whilst, as has been said, the market value of silver is only about 2s. 4d. an ounce. The gain to the Exchequer, which in the year 1889 was no less than 54 per cent., and in 1890 was 35½ per cent., is called 'seigniorage.' The like profit to the French Mint is designated *retenue*. So low is the cost of output of silver at some mines that those of Huanchaca, in Chili, can turn out this metal at less than one shilling per ounce.

According to the Coinage Act of 1870, there can be no 'legal tender' of silver beyond forty shillings, and of bronze

¹ Bills of exchange (§§ 86 ff.) drawn upon or negotiated at Amsterdam for 600 guilders and upwards had in like manner to be paid in bank money. In England, on the other hand, bills have always been paid in the common currency. The drawer of a bill payable in a bimetallic country (§ 88) usually stipulates for discharge in a specified metal.

² Messrs. Martin and Palgrave, in a communication to the London morning newspapers, appearing on the 24th December, 1891, estimated the gold circulation as: Sovereigns, fifty-six millions, and half-sovereigns, thirteen millions of pounds.

³ "When a silver coin is spoken of as denoting the price of any article, what is meant by it is the fraction of the gold sovereign to which it corresponds." (FARRER, *The State in Relation to Trade*, p. 47.)

⁴ This began about twenty years ago, when, after the American Silver Mines had become profusely productive, and so far influenced the value of silver metal, the German Empire and some other States adopted a gold standard, which accelerated the fall in the price of silver.

⁵ Sixty-six shillings are made out of one troy pound of silver.

coins beyond twelve pence. This is of course for the protection of traders against loss.

§ 76a. The Scottish coinage was assimilated to the English at the time of the parliamentary union of the two countries. British money is current in most of our colonies.¹ Special silver-pieces, being in value from five to fifty cents, are coined at the British Mint for Canada. Where more than one monetary system exists in the same State, as happens also in British India, there is said to be a 'parallel currency,'² which in Canada consists of Canadian silver, English and American gold, and American copper.³

The currency of the United States, analogous to those of the various countries parties to the 'Latin Monetary Convention,'⁴ is based on the decimal system,⁵ one hundred cents going to a dollar, the symbol for which is \$.⁶ The German Empire has also adopted a modified form of that system, but extending to weights and measures as well as money.

§ 77. As already stated, our monetary system is based upon one metal, is 'monometallic.'⁷ So also is that of the German Empire. The depreciation of silver, however, has brought

¹ Mauritius is an exception.

² ROSCHER, p. 218.

³ Decimal currency came into use in the year 1859.

⁴ As to this, reference may be made to ROTHSCILD, i. p. 360. It was originally concluded, in 1865, by France, Belgium, Italy, and Switzerland. Greece joined in 1868. In the year 1885 the agreement was renewed until 1890, since which year there seems to have been a tacit understanding between these States to maintain the system if they can.

⁵ It was introduced in the year 1786.—Cp. *French Reader*, § 59, *ad fin.*

⁶ For the origin of this symbol, see BITHELL under 'Dollar.' Cents are in American promissory notes and cheques usually written fractionally: thus, \$50 $\frac{1}{100}$.

⁷ As to the selection of a standard metal by a monometallic country, see ROSCHER, § 45. Laveleye gives reasons for preferring silver to gold, as was done by Russia and Austria. The latter power has now adopted a gold standard, as was done by the German Empire and Italy, which, it would seem, simply followed the example set by England three-quarters of a century ago.

the 'bimetallic' or 'alternative' system,¹ which obtains in France, into increased notice. A considerable number of living economists favour its general adoption. The ratio between gold and silver its advocates would put at $15\frac{1}{2}$.² Bimetallic Conferences can do nothing without the adhesion of Great Britain.

Gresham's law,³ according to which good money is exported, and bad or light money is kept for circulation, is a great drawback in the bimetallic system, within a recent period illustrated in France, which has a forced silver currency.⁴ Silver became so cheap that debts were paid in it, and gold was exported. The French Mint, accordingly, found it necessary in the year 1878 to restrict the coinage of five-franc pieces, so as to make payment in gold compulsory. Now no silver is coined, there being forty millions in circulation, and sixty millions in the vaults of the Bank of France. When there is a sudden demand for payments abroad, gold is at a premium.⁵

§ 78. The following are the principal moneys in circulation in foreign countries. In India, the *rupee*; in the United States, the *dollar*; in France, Belgium, and Switzerland, the *franc*; in the German Empire, the *mark*; in Austria, the *gulden*;⁶ in Russia, the *rouble*; in Italy, the *lira*;⁷ in Spain,

¹ *Doppelwährung* (ROSCHER, pp. 215 ff.); *système bimétallique* (LAVELEYE, pp. 202 ff.). See especially WALKER, *Money, Trade, and Industry*, ch. vi., vii.

² The Bland Act of the U.S.A. (1879) fixed this at 16.

³ See MACAULAY, *History of England*, ch. xxi. It was propounded in a memorandum Gresham communicated to Queen Elizabeth, whose financial agent and adviser he was.

⁴ That is, silver five-franc pieces are legal tender without limitation.

⁵ Such was the case in August, 1891, when the premium was 3 per cent. (*Standard*, April 15th, 1892.) It often occurs in Spain. We shall have occasion to speak further of this 'agio' in another place.

⁶ Representing hitherto about 1s. 11½d. It has been proposed to make it of the value of 1s. 8d.

⁷ The symbol £ is employed for this, from which the English symbol for 'pound' is distinguished by the addition of *sterling*.

the *peseta*; in Portugal, the *milréis*; in Holland, the *guilder*; in Denmark, Norway and Sweden, the *krone*; in Turkey and Egypt, the *piastre*; in Greece, the *drachma*. To these we may add the *tael* in China, and *yen* in Japan. The circulating value of each, expressed in British money, may be seen in good manuals of commercial geography or almanacs, such as Whitaker's.¹

Monetary conventions may provide for the money of one country being legal tender in another. For example, the French 20 franc-piece is legal tender in Spain, and the Spanish 20 peseta-piece is legal tender in France.

§ 79. Next, as to the exchange of money. The *Mint par*² of exchange is the value of the coins of one country expressed by those of another using the same metal.³ An absolute par can be established only between coins of the same metal; whilst the *arbitrated par* "signifies the amount of currency in one country which is equivalent to a given amount in another, taking into account," amongst other things, "the relative value at the time of gold and silver in the case of those countries having a different metallic standard."⁴ So fluctuating and irregular was the relation of silver to gold during the Middle Ages that the business of money-changing, chiefly practised by Italians calling themselves *cambists*, became a most important one: as it required special skill, it was very remunerative. Readers of Chaucer may remember how his 'marchant' excelled in 'eschaunge.'⁵ At the present time the same cause operates in British Indian trade to such an extent that our Lancashire manufacturers are thereby strongly disposed towards bimetallism, the dislocation in the Eastern exchanges having

¹ Foreign currencies are well set out in Dr. YATES' *Golden Gates*, pp. 175 ff.

² Our English 'par' is taken directly from the Latin for 'equal'; the German *pari* is from Italian; the French is *pair*.

³ BITHELL, under 'par.'

⁴ *Ibid.*

⁵ *Canterbury Tales*, 'Prologue,' l. 278.

in the year 1893 actually made the shipment of cotton goods from Bombay to Manchester a profitable transaction.¹

The 'course of exchange'² between London and foreign countries is expressed in some cases by the sterling³ as fixed, and the foreign money as variable; in others by the foreign money as fixed, and the sterling as variable. Thus, as between London and France, Germany or the United States, the exchange is expressed in so many francs (25.22), marks (20.43), and dollars (4.84) respectively, equivalent to £1; whilst as between London and India, Russia, or Spain, the exchange is expressed by so many pence (22.6) as equivalent to a rupee, pence (38) for a rouble, pence (47.5785) for a piastre, respectively.⁴

Money, just as other commodities, may be the subject of shipment.⁵ Such 'movement of specie' is frequently recorded in money articles. In a newspaper before us a steamer is reported as bringing to this country a parcel of sovereigns from Melbourne, silver dollars from Adelaide, and eagles from Hong Kong, besides bullion in the form of gold bars from Singapore.⁶ This arises partly from the necessity of redressing the balance of trade between two countries,⁷ but also from the speculative transactions of the bullion market. The transmission of money, however, from one country to another for the first-named reason is obviated very much by the use of bills of exchange, which, in their character as instruments of credit, will be dealt with in the next lesson.

¹ *Daily Telegraph*, March 30th, 1892. (Money Article.)

² *Kurs*; *cours*.

³ This word, commonly contracted into 'stg.', is with probability derived from 'Easterling,' the name by which any Baltic merchant, who always employed good money, was known in England in mediæval times.

⁴ See table in BITHELL, p. 221, and cp. CRITTENDEN'S *Commercial Arithmetic*, pp. 91, 177, also the 'Course of Exchange' recorded in the London morning papers of every Wednesday and Friday.

⁵ See MILL, *Principles of Political Economy*, ch. iii., xix.

⁶ The importation of gold into the United Kingdom in 1898 amounted to about £30,000,000.

⁷ As to specie point, see Part iii.

§ 80. The value of money, like that of other commodities, depends on the relation of supply to demand.¹ A surfeit of money, such as flooded Europe in the sixteenth century,² will diminish its value and send up prices; whilst a deficiency of money to meet the requirements of exchange, as in the early part of the present century, enhances its value and depresses prices.³

As abundance of money means high prices, there is no advantage gained from it.⁴ This, however, was not seen by the adherents of the old 'mercantile system,' which will come before us in a later lesson.

§ 81. Besides a metallic, many countries, and amongst others our own, make use also of a *paper* currency.⁵ The currency of Scotland, and that of the United States, is largely paper. We must reserve the consideration of this as a large subject for other lessons.

§ 82. A further distinction arises between moneys 'in circulation,' which hitherto alone have been in view, and 'moneys of account.'⁶ Thus for some time after the Act of Union the 'pound Scot' was still used in Scotch accounts, as the *livre* still is in French Government dividend accounts.⁷ Our 'sovereign' is money in circulation, but we always speak of 'pounds' in accounts.⁸

¹ See MILL, p. 111, ch. ix.

² Between the Conquest of Mexico (1521) and discovery of the mines at Potosi (1545), more than fifteen millions had been added to the English stock of precious metals.

³ Cp. SYMES, *Short Text Book of Political Economy*, pp. 106 ff.

⁴ See LAVELEYE, pp. 195-6. The mistaken notion to the contrary explains such a statute as that of Henry IV. whereby merchant strangers were prohibited from taking out of the country the money which they had derived from trade in English commodities.

⁵ *Papiergeld*; *papier-monnaie*.

⁶ *Rechnungsgeld*; *argent de compte*.

⁷ The warrants are of course paid in francs, which superseded *livres* at the time of the French Revolution.

⁸ The symbol £ stands for the Lombard *librae*, as 's.' is for *solidi*, and 'd.' for *denarii*.

§ 83. Confining ourselves to the financial history of England, without reference at present to 'credit,' and going back to the early British period, it may be interesting to any reader unacquainted with the fact to learn that, while the Celtic inhabitants of this island under Roman influence made use of coined money, of which specimens are still extant, the first English settlers were without a currency. Wheat was for some time their measure of value, and the use of metallic money was but little developed before the time of Alfred. As long as disunity prevailed there were different mints in various parts of the country, that at Winchester, as the capital of Wessex, being only the chief. No gold was circulated, and the unit was the silver penny.¹

In the later Norman period, that is, the troublous time of Stephen's usurpation, the currency became much debased, and one service rendered by Henry II. was his endeavour to purify it. In the reign of Henry III. gold 'byzants' were introduced from Constantinople; this gradually brought in a double standard. But Henry VII. was the first king to coin either a gold coin like our present sovereign, or a silver coin like the shilling. In the reigns of his son and grandson the currency was shamefully tampered with, but Queen Elizabeth signalised her accession by restoring it;² as did also William III. after the corruption of money by James II.³ Money with edges milled was then introduced.

In 1717 Sir Isaac Newton, as Master of the Mint, estimated the value of the guinea⁴ at 20s. 8d. It was then made current

¹ Twelve of these made up a nominal shilling, which for a long time after the Norman Conquest remained only a 'money of account.'

² See FROUDE, *History of England*, ch. vii. She established a *sole* mint in the Tower.

³ Defoe is profuse in his praise of William III. for the great service he thus rendered to public justice and morality. Workmen would receive their wages by tale, but, by the custom of tradesmen, would have to pay for the necessities of life by weight, thus sometimes losing as much as one-half of their wages.

⁴ First introduced in the reign of Charles II.

by proclamation at 21s. Thus gold was overrated, and people accordingly, under the system of alternative tender,¹ paid in it as the cheaper metal, and silver was exported.² The late Professor Rogers has shewn that the alternative tender often gave debtors an advantage of from 4 to 6 per cent., which, as he says, was a "serious inroad on business profits, a serious addition to business risks."

In 1816 this system of tender was abandoned for a gold standard, and our present 'sovereign' then replaced the guinea, being issued on the basis of Newton's calculations. In 1830 Sir Francis Baring advocated a return to bimetallism, which was opposed by Sir Robert Peel; and although the matter has recently again been before the House of Commons, monometallism remains undisturbed in England.

About the same time that Sir F. Baring advocated bimetalism, Lord Wrottesley in the other Chamber proposed the adoption of decimal coinage, which likewise still remains a subject of discussion in this country.

¹ See above as to Gresham's Law.

² The reverse of course of what has been said as to the practice in France, but illustrating the same law.

LESSON XII.

CREDIT IN GENERAL.

Nature of Credit—Instruments of Credit—Banks—Stocks and Shares.

§ 84. CREDIT,¹ as affecting traders in distinction from consumers, is, in the words of Mill, the "permission to use the capital of another person" to one who will "employ it efficiently in production."² To some of our readers this may be quite a new meaning for the word. "The mother says to her son: *Buy nothing except for money, credit is ruinous.* The father tells him, *Credit is the soul of industry, it is the refusal of it that ruins.* Both are right."³ The enormous volume of wholesale trade done by this country through employment of credit, which a few years ago was estimated at nine-tenths of the whole,⁴ sufficiently indicates its importance as a vehicle of production. The same person will equally buy and sell on credit.⁵

¹ *Kredit*; *crédit*. Each form of the word of course comes from the Latin *credere*. The jurist Ulpian (following Celsus) says, "*Credendi generalis appellatio est . . . nam cuicumque rei assentiamur alienam fidem secuti, mox recepturi quid ex hoc contractu credere dicamus.*" (*Dig.*, xii. i. 1.)

² See his *Principles*, bk. iii. ch. xi., comparing ROSCHER, pp. 245 ff., or the elementary work of WALKER, cp. xiii., LAVELEYE, pp. 216 ff.

³ LAVELEYE, pt. ii. ch. iv. § 3.

⁴ The tendency, however, now is towards curtailment of credit, more wholesale transactions being for 'cash.'

⁵ BAGEHOT, *Lombard Street*, pp. 58 f.

§ 85. We may at once enter upon the consideration of the instruments of credit, the chief of which are 'negotiable instruments,' relating to money or goods the property in which passes by transfer of the instrument, either as made out to 'bearer,' to 'order,' to the payee 'and his assigns,' or containing such other words importing a transfer.¹ These are Bills of Exchange, Promissory Notes (including Bank Notes), Cheques, Letters of Credit, Bills of Lading, Dock Warrants, &c.

§ 86. First, of a **Bill of Exchange** (B/E).² This is a form of "security originally invented among merchants in different countries,³ for the more easy remittance of money from the one to the other, which has since spread itself into almost all pecuniary transactions. It is an open letter of request⁴ from one man to another desiring him to pay a sum named therein to a third person on his account, by which means a person at the most distant part of the world may have money remitted to him from any trading country. . . . The person who writes this letter is called the *drawer*,⁵ and he to whom it is written the *drawee*,⁶ and the third party or negotiator, to whom it is payable (whether specially named, or the bearer⁷ generally), is called the *payee*.⁸ These bills are either *foreign* or *inland*; foreign when drawn by a merchant residing abroad upon his correspondent in England, or *vice versa*,⁹ and inland when

¹ See remarks of Mr. Justice (now Lord) Blackburn in *Crowley v. Crédit Foncier*, cited by CHALMERS in his *Digest of the Law of Bills of Exchange*, pp. 312 f., and other cases there referred to.

² 'Bill of Exchange' is in German *Wechsel* (ROTHSCHILD, i. pp. 369 ff., ii. 69); in French, *Lettre de Change* (MERTEN, pp. 50 f., *Reader*, § 62). The latter designation closely follows the Italian *Lettera Di Cambio*.

³ See further as to this below.

⁴ Defined by the Bills of Exchange Act (1882) as "an unconditional order in writing," &c. There must be no contingency.

⁵ *Aussteller*; *tireur*. ⁶ *Bezogener*; *tiré*. ⁷ *Inhaber*; *porteur*.

⁸ *Remittent*; *preneur*. He may be the same person as the drawer. If there is no payee named, the bill is said to be drawn in blank.

⁹ These of course effect payment of international debts.

both the drawer and the drawee reside within the kingdom.”¹ A bill not actually representing indebtedness on the part of the drawee, but acknowledged by him in order to enable the drawer to raise money upon it, is called an ‘accommodation bill.’² A bill of exchange falls under the head of ‘simple contracts.’³

§ 87. The following is a form of *inland* bill :

£200. London, 1st January, 1892.
Two months after date pay (this Bill of Exchange)
to Mr. Thomas Jones, or order, the sum of Two
Hundred Pounds (or value received), and charge the
same to my (our) account.
 To Messrs. Smith & Brown, Bank, Birmingham.
 B. Clark & Co.

Here Clark & Co. are the drawers, Smith and Brown the drawees, Thomas Jones the payee. If the drawers are also to be payees, the words “to Mr. Thomas Jones or his order”⁴ will be replaced by “to our order,” and the words “and charge etc.” will be omitted.

The addition of “for value received” is not necessary by our law, which presumes consideration in regard to bills of exchange.⁵

Signing by the drawer is not absolutely necessary to an English bill.⁷

If Clark & Co. can rely upon Smith and Brown’s

¹ BLACKSTONE, pp. 466 f. ‘England’ here stands for the British Isles.

² *Kellerwechsel*; *effet fictif*. A ‘blank credit’ (*blancokredit*; *crédit à découvert*), a power given by one merchant to another to draw upon the former up to a certain amount without cover, is similar. (cp. § 219.)

³ Sect. 18. •

⁴ Contracted, e/d.

⁵ Or the alternative “to the order of Mr. Thomas Jones.” The words “to order,” which are optional according to English, are required by French law.

⁶ In this, again, French law gives no option.

⁷ It is otherwise with bills governed by the German code.

acceptance¹ of the draft,² that is, their firm's signature across the face of the bill,³ which fixes the drawee's liability upon the bill, it is unnecessary for the drawers to send it to them direct for acceptance: Clark & Co. may transmit it at once to Jones for 'presentment,'⁴ and should in that case at the same time advise (inform) Smith and Brown of having 'valued' upon them, requesting them to 'honour' the draft. We have assumed that Smith and Brown comply with such request. Their acceptance, however, may be 'qualified,' that is, for a part only of the amount drawn for.

§ 87a. The draft, which now acquires the further name of an 'acceptance,' will pass by negotiation⁵ from Jones, the first holder, to his bankers, if submitted to them for discount. The procedure in the discounting of bills we must hold over for Part II., discussing it then in connection with Banking.⁶ Indorsement⁷ of the bill will be required by the first holder if it is made payable to his order, and each successive holder will do the same, as long as it remains negotiable by like indorsements.

If the bill in the hands of any one transferring it requires no indorsement, he is said to be a 'transferor by delivery.' An indorsement may be general, as simply "Thomas Jones," or special, as "Pay to the order of William White.—Thos. Jones." Again, the bill may bear a restrictive indorsement, as "Pay to A.B., for my use only," whereby its negotiability is ended; or, as done by executors, "Without recourse⁸ to me,"

¹ *Accept (Annahme); acceptance.*

² A bill is commonly called a 'draft' (dft.) before acceptance. But drafts strictly so called have legal qualities distinct from those of bills: see below.

³ Such words as those preceding it are discretionary, but customary.

⁴ *Vorzeigung; présentation.*

⁵ *Begebung; négociation.*

⁶ The various classes of bills in regard to their rank in credit, for example those of the highest reputation, 'bank bills' or bankers' acceptances, will then come under consideration.

⁷ *Indossament (Giro); endossament.* As to 'made bills,' see BITHELL, *s.v.*

⁸ *Ohne obligo (Regress); sans recours.*

which protects the indorser from liability upon the bill. Every one else who has indorsed any bill is liable in the event of its being ultimately dishonoured, subject only as hereafter mentioned.¹

§ 87*b*. A bill of exchange is vitiated by material alteration, such as that of the date, time, or place of payment, and amount.

Bills drawn payable 'on demand' (o/d), or 'at sight' (a/s),² are described as 'short bills';³ so also those that have less than thirty days to run.⁴ Except as regards this class, bills payable in England,⁵ whether inland or foreign, mature or fall due after three 'days of grace.'⁶ The bill here given by way of illustration would accordingly be payable on the 4th March, 1892.

If then 'met,' on presentment by the holder for the time being, it would of course be discharged.⁷ But presentment must be made at the proper time;⁸ otherwise the liability of the drawer and indorsers will cease if the bill is dishonoured.

¹ A bill will sometimes, as in Lancashire, bear a very large number of indorsements; and when necessary, 'riders' are employed, technically called '*allonges*.'

² Represented indifferently by *auf Sicht*; *à vue*.

³ *Kurze Papiere*; *papier court*.

⁴ BITHELL says, less than ten; but the expression seems to be now more elastic. Short sight often appears in reports as 's.s.'

⁵ And so of bills payable in the United States. But the statement of the Rev. J. B. LOCK that "three days of grace are allowed all over the world" (*Commercial Arithmetic*, p. 141) is strangely inaccurate. The Napoleonic *Code de Commerce* abolished days of grace for all traders governed by it; so too the German *Wechselordnung* in its range of influence. The rule does not apply to bills at short sight, but they are left with the drawee one clear day for sighting. The custom is likely to die out altogether.

⁶ *Respekttage*; *jours de faveur*.

⁷ A bill withdrawn from circulation before it is due, as when bought up by any one, is said to be 'retired,' from the French *retiré*, which in German is *eingelöst*. Thus a person 'taking up' a bill in the hands of a discounter, who allows him a rebate for the unexpired time, retires the bill. Bills may also be noted for non-acceptance, but this is often dispensed with.

⁸ Presentment may be made at the Bankers' Clearing House (§ 216).

To 'protect'¹ a bill is to send funds wherewith to meet it when due, in case there should be an insufficient amount at the bank for that purpose.

§ 87c. In the event of dishonour, the holder will place the bill in the hands of a 'Notary,'² who will make a further formal presentment to the acceptor, and if payment be again withheld, this functionary will give notice of the dishonour to the last indorser,³ against whom and all other parties to the bill the holder acquires an immediate right of action.

Interest on a bill runs from maturity alone, unless it bear on its face an engagement to pay interest, and then it runs from the date of the bill.

§ 88. Coming to *foreign* bills, we have to premise that, as a security against loss in transmission, these are commonly drawn in sets of two or three, and each is called a 'via.' When one of them is accepted, the others become void. If only one bill is drawn, it is called 'Sole of exchange.'⁴

The following form will serve as an example.⁵

Liverpool, 2nd Feb., 1892.

Exchange for £350.

Sixty days after sight⁶ pay this our first of exchange (second and third not paid) to the order of Messrs. Gray and Thompson Three hundred and fifty Pounds for value received which place to account as advised.

Henry Williams.

*Messrs. F. R. Green & Co.,
New York.*

[In need with Messrs. L. & M. Mackintosh.]

¹ *Decken ; couvrir.*

² *Notar ; notaire (huissier).*

³ The form given by Mr. Justice Byles would be found reproduced in BITHELL under 'Noting.'

⁴ *Solawechsel ; seule (lettre) de change ; the Italian is sola di cambio.*

⁵ For German forms see ROTHSCCHILD II. pp. 70 ff.; for French, MERTEN, p. 51.

⁶ Note the abbreviation 'a.s.'

§ 88a. The language in which a foreign bill may be drawn is discretionary.

It will be observed that *exchange* now comes in question.

We need only remark here that English merchants prefer to draw on foreign customers in British currency, which enables them to realise the exact amount of their invoices, and to avoid adverse exchanges.¹ Further remarks on that subject are reserved for Part ii., when the 'foreign exchanges' will require attention.

Foreign bills made payable somewhere else than at the place of business of the acceptor are said to be 'domiciled.' Such bills, subject to the 'usance,'² are largely drawn at 'long sight,' and are long or short as the usance may be. Here, if Messrs. Green accept the bill, they should add the date of sighting.

In default of acceptance the holder will hand it to a notary for 'protest,'³ which, to serve as evidence in a foreign court, should be attested by the Consul of the country in question. The notary makes formal presentment for acceptance, and if this fail issues his protest, setting forth that on a certain day he exhibited the original bill to a clerk in the counting-house of the person upon whom it is drawn, that he demanded acceptance, and, stating the answer received, he protests "against the drawer of the said bill, and all other parties thereto, for all costs, exchange, re-exchange, and costs, damages and interest present and to come, for want of acceptance of the said bill." Notice of this is sent to the drawer. The like procedure is adopted if a bill be dishonoured by non-payment, but then the notice is sent to the last

¹ As to payment in a bimetallic country, see note on § 75 above.

² *Uso*; *usance*. Thus the usance for bills at New York upon Europe is sixty days' sight; at Calcutta upon London, six months after sight. Our word once meant 'interest,' and is so used in the *Merchant of Venice*, act i., sc. 3.

³ *Protest*; *protêt*. In Scotland 'protest' is required for inland bills also.

indorser, as already stated in respect of an inland bill.¹ The example given is provided with a 'case of need,'² that is, some person named by the drawer or an indorser to whom reference may be made in case there is any informality in the bill.

If the bill, however, has been duly accepted, its negotiation will proceed from one buyer to another. The seller of a foreign bill is a person wishing to realise the amount charged for goods exported by him; the buyer, one who has to pay for goods he has imported. There are various elements that fix the price of a foreign bill, the consideration of which belongs to a later lesson.³

An ordinary foreign bill, payable in England, will mature according to the rule given for an inland bill; a Russian bill, according to the Julian calendar.

§ 88*b*. The English law on bills in general has been codified by the Bills of Exchange Act of 1882,⁴ which applies also to Scotland, and has been adopted by Canada and the Australian colonies.

The law of the country in which any act connected with a bill is done, or to be done, will govern that particular act. Thus, if a bill drawn in this country is accepted in Germany and made payable in France, English law will govern the drawing, German the acceptance, and French the payment.

§ 89. A Promissory Note (P/N),⁵ or 'Note of Hand,'⁶

¹ A bill may also be protested for better security from the acceptor or drawer if the former become insolvent before its maturity—then said to be 'supra protest'—which may be followed by another person's acceptance 'for honour.'

² German bills have for this: *Im Notfalle bei*; French, *Au besoin chez*.

³ In Part ii.

⁴ See § 72 of the Act.

⁵ The French *seule de change* and German *Solawechsel* as used for this are a misapplication of each term; but *eigener Wechsel* and *Handwechsel* are better. The French *billet à ordre*, again, is inappropriate (cp. *French Reader*, § 65). The translator of Laveleye's treatise gives 'bill to order' (p. 211), which can only mislead English readers.

⁶ The *chirographa* of the *peregrini*, spoken of by the Roman commentator Gaius. (*Institutes* iii. § 134.)

is "a plain and direct engagement in writing to pay a sum specified at the time therein limited to a person therein named, or sometimes to his order, or often to the bearer at large"; thus, "payable to A *or bearer*, negotiable without any indorsement, and payment thereof can be demanded by any bearer of it."¹ The person whose signature is appended to the note is called the 'maker.' These instruments are governed by much the same law as that of bills. Like them, promissory notes are divisible into *foreign* and *inland*. The words 'for value received,' again, are needless in an English note. If not discharged in due course it should be dealt with in similar manner as a bill.

The following is a form of promissory note.²

£50.

London, April 5th, 1892.

Three months after date³ I promise to pay to Mr.
John Wilson (or order) the sum of Fifty Pounds (for
value received).

James Gardner.

If a third party were to join James Gardner, and the two bind themselves individually and collectively to pay the £50, the instrument would be called a 'joint and several' promissory note.⁴

'Bank Notes,' of which we shall have to speak with more particularity in Part ii., so far as regards their form are promissory notes, but they differ from other instruments of this kind in being always payable to bearer, and to no assigned person. No other promissory note made payable in this way in England is legal.

¹ BLACKSTONE, vol. ii. p. 470, cp. CHALMERS, *Bills of Exchange Act*, pp. 59 ff.

² For German form see ROTHSCHILD, ii. p. 482; for French, MERTEN, p. 63.

³ Or 'on demand, &c.'

⁴ *Solidarischer eigener Wechsel*; *billet solidaire*.

⁵ *Banknoten*; *billets de banque*. With the French agrees the expression 'bank bills' current in the United States, by which an Englishman understands something different (*supra*).

§ 90. An 'IOU' differs from a Promissory Note in being only the acknowledgment of a debt, not a promise to pay it. It is not negotiable, and requires no stamp.

It is in the following form :

Hull, 1st May, 1892.

To Mr. John Smith.

IOU Thirty-five Pounds.

£35.

George Brown.

§ 91. A **Cheque**¹ is a bill of exchange drawn on a banker and payable on demand² for some specified sum standing to the drawer's credit in the books of such banker;³ whether payable (α) to the drawer himself, (β) to a third person 'or bearer,'⁴ or (γ) to the order⁵ of such third person, who in the last named case will be required to indorse it. Like any ordinary bill of exchange, a cheque may be either inland or foreign.

A cheque 'to bearer' may be either *open*, i.e. payable to the person named on the cheque, or the holder, over the counter at the bank specified, or *crossed*, i.e. payable only through a banker, who may be the same banker if the payee is likewise his customer, or another banker.⁶ The crossing may be *general* or *special*, according as some particular banker is named or not. Crossing is a protection against fraud, as only some person keeping an account at a bank can obtain payment of such a cheque.

¹ *Check*; *chèque*.—The latter word took the place of *bon* after the passing of the 'loi concernant les chèques' (1865).

² Bills of Exchange Act, § 73.

³ If the customer has not actually at the time funds at the bank to meet his cheque, it will be returned to him with words such as 'refer to drawer' (r/d), or 'no effects,' 'no orders' (n/o), i.e. *dishonoured*.

⁴ *Ueberbringer (Inhaber)*; *porteur*.

⁵ *An die Ordre*; *à l'ordre*.—Such cheques as need indorsement acquire the character of receipts.

⁶ Cheques drawn *nur zur Verrechnung* have the same character at the Imperial Bank of Berlin (ROTHSCHILD, i. 404). On the other hand, crossed cheques (*chèques barrés*) are not recognised at all in France.

The form we shall give is that taken by the greater number of cheques drawn.¹

London, 10th May, 1892.

The London and Westminster Bank, Fleet Street.

Pay to Mr. Richard Stephenson or bearer (order)
the sum of Fifty Pounds.

£50 ——— Joseph Goddard.

§ 91a. It would be enough to constitute this a general crossing, to draw the transverse lines, without adding ‘& Co.’ Stephenson, on receipt of this cheque, can prefix to these words the designation of his bankers, and send it to them for collection.²

A cheque may, further, be drawn ‘not negotiable,’ so that the holder shall acquire no better title than the person from whom he received such cheque, who may have had no legal title to it. This English practice, recognised by the Crossed Cheques Act (1876), defeats the application to cheques of a rule to which ordinary bills of exchange are subject when made payable to bearer and not overdue.

A ‘marked cheque’ is one certified by the banker upon whom it is drawn to be good for the amount.³

§ 92. A **Draft** (dft.)⁴ is, strictly, an order for payment addressed to a person holding money, not as a debtor, but in a fiduciary relation.⁵ Orders for money drawn by one Government department upon another, as India Council drafts, are illustrations.

¹ For German form see ROTHSCILD, ii. 86; for French, MERTEN, p. 49.

² As to the manner of ‘collection’ by one bank from another, see § 216 below.

³ See next section, *ad fin.*

⁴ *Anweisung*; *bon.*—As used of bills before acceptance (*supra*), the word is represented by *Tratte* and *traite*. Inland bills are by some specially called ‘drafts.’

⁵ See BITHELL, *s.v.*

Money is frequently remitted from provincial towns by persons not having a bank account by means of a country banker's draft on his London agent.¹ A 'marked cheque' will effect the same operation.

§ 93. A **Cash Order**² is an instrument, not negotiable, used by some warehousemen in large towns for the purpose of obtaining payment from retail dealers who are their customers. It is drawn upon the latter, and sent to a local banker for collection. A cash order usually takes the following form :

Belfast, 15th May, 1892.

£50.

*On demand please pay the Northern Banking
Company limited Fifty Pounds sterling.*

Macartney & Co.

*To Mr. James Stewart,
Coleraine.*

§ 94. A **Letter of Credit (L/C)**³ is an instrument⁴ frequently issued for the convenience of intending travellers, and traders in particular, who may desire not to undergo risk of conveyance of much money, as well as to save trouble of exchange, by bankers and others, whereby the latter request certain specified correspondents abroad to pay to the bearer⁵ such sums as he may require up to a limited amount in the

¹ Similarly money may be remitted from London to the country by a 'Bank Post Bill' (B/P/B), so called. This is strictly a promissory note, made by an officer of the Bank of England, undertaking at so many (usually seven) days' sight to pay such 'sole bill of exchange' to an assigned person or order. See form in BITHELL.

² *Zahlungsordre (Stellattell)*; *assignation sur le débiteur*. As to these instruments, see also RAE, *The Country Banker*, pp. 87 f.

³ *Kreditbrief*; *lettre de crédit*.—An English form may be seen in *Précis Writing*, pp. 48 f.; German and French forms, in manuals of foreign correspondence.

⁴ As usually drawn they are not negotiable.

⁵ Anyone may obtain a letter of credit upon depositing the required amount with a banker.

whole, upon his receipts given for the same. The document is indorsed with the sums successively disbursed, which are debited to the firm that issued the letter, according to the current rate of exchange, with a small charge for commission. The banker's or other person's letter to his correspondent, advising the issue of the document, and enclosing a slip bearing the holder's signature for identification, is called the 'letter of indication.'

Sometimes 'circular notes' for £5 or £10 each are issued by bankers for the like purpose, and similar means of identification are employed.¹

§ 94a. The 'Money Orders,'² 'Postal Orders,'³ and 'Telegraph Money Orders,' of which everyone can avail himself at some Post-office or other in the United Kingdom, may be referred to in this connection as facilitating the transmission of money both at home and to foreign parts. Ordinary Money Orders may be made payable through a bank by being crossed like cheques.

§ 95. Bills of exchange (including cheques),⁴ drafts, orders, and letters of credit, for whatever amount, which are payable on demand, are subject to Inland Revenue duty of one penny. All other bills and ordinary promissory notes are liable to duty according to a scale contained in the Stamp Act of 1891, which may be seen in good almanacks.

§ 96. Little need be said about the history of these various instruments. The Jews, some of whom came over with

¹ Other instruments of credit, such as debentures, will be dealt with in a later lesson on Stocks. Bills of lading will be discussed in their appropriate place.

² *Postanweisungen*; *mandats [de] poste*. There is now a form of international money order payable according to the current rate of exchange.

³ *Bons de poste*.

⁴ To avoid the stamp, money can be passed from one account to another at the same bank by means of a 'transfer.' Cf. the red cheque of the Reichsbank at Berlin (ROTHSCHILD, i. 404); also the French *assignation sur la banque*. (MERTEN, p. 47.) It falls under the head of 'delegation.' See B.THELL, *s.v.*

William the Norman, were the first class of traders that manipulated credit in England; after the expulsion of these in the reign of Edward I., their place was taken by Lombards, who established themselves in London, with an Exchange in what has from them been called Lombard Street. It was Italians with whom modern bills of exchange originated,¹ and they² seem to have introduced the system into this country in the thirteenth century. Bills were used at first by exchangers alone, but in course of time traders discerned the advantages afforded by these instruments.

Negotiation by indorsement, however, dates only from the seventeenth century, when it was commenced by French traders at fairs such as that of Lyons.³ Inland bills came into use in England about the same time; and were posterior to promissory notes, which had also been used on the Continent earlier, in the business of such fairs, to secure the payment of any balance between traders attending them.

Cheques are of purely English origin, having been first used by London bankers about the year 1780, when the present system of bank-deposits was introduced.⁴

§ 97. Something may here appropriately be said by way of introduction to the study of **Banking**,⁵ which the reader should realise does for Credit a service like that rendered by the steam-engine to Industry and Transport.

The word 'bank' is derivable ultimately from the Middle

¹ At the Rialto of Venice, as is most probable. But bills of exchange in a crude form were used by the Romans. See MACLEOD, *Theory and Practice of Banking*, s.v.

² Unless it were the Jews, who upon their banishment would have to devise means of afterwards withdrawing their capital from England which was not immediately available.

³ The French word *virement* (transfer) originated from money transactions at these fairs. 'Deposit banks' is in French *banques de virement*.

⁴ See Lesson xxiv.

⁵ G.: *Bankwesen*.—French has only the word *banques*, as to which see note in *French Dialogues*, ii., p. 114.

High German *banc* (heap),¹ and mediately from the Italian *banco*.² Banking, however, was practised before there was coined money, as proved by the banker's books in clay among the Babylonian remains. After the general adoption of coined money, this business was developed by the Phœnicians. Later on we meet with the *argentarii* of classical times, mentioned by Livy, Cicero, and other writers.

The principal business of mediæval bankers seems to have been money-changing, to which they gradually added transactions in bills, and loans secured by bonds, as was done by the Petrussi of Florence, who made advances to our Edward III., and by the celebrated Fuggers of Augsburg. The earliest of the public banks was the *Banco del giuro* of Venice, founded in 1171, which began as a finance bank, with the State as its chief customer. All commercial debts were paid through this bank by a simple transfer.³

In the seventeenth century State banks were formed at Amsterdam, Hamburg, etc., before modern English banking sprang up. These all made it their business to supply good money.⁴ English banking originated, as far as London was concerned, in the business of the goldsmiths,⁵ who became caretakers of money during the unsettled times in the middle of that century. It took definite shape when they commenced to discount bills; and then the establishment of the Bank of England completed the foundation of the modern system of credit which obtains in England, to be dealt with in Part ii.

¹ Cf. Anglo-Saxon *benc*, the later 'bench.'

² A counter. See KLUGE, *Etymologisches Wörterbuch der Deutschen Sprache*, p. 16. With the Italian, who sat at his *banco*, cf. the Greek *τραπέζιτης* and Roman *argentarius* (referred to above).

³ *Giuro* meant 'transfer.'

⁴ 'Bank money.' See ROSCHER, § 62; also § 75 above.

⁵ Their 'notes' gave place in the last century to cheques, and then London banks, with the exception of the Bank of England, ceased to be banks of issue. As to modern credit-notes (*Akkreditivs*; *accréditifs*) see BITHELL, *s.v.*

Here we shall only further add, in the words of Mr. Danson, that as practised at the present day, Banking "consists in transferring capital from where it is little wanted to where it is much wanted. Bankers do for floating capital what merchants do for the goods they deal in:"¹ they *circulate* money. Persons engaged in such business afford facilities for the transmission and collection of money by way of settling debts or otherwise, and also the means to those who save of putting out their money at interest with the least trouble to themselves. Amongst the advantages derived by a merchant, in particular, from keeping a bank-account is the reference he can give to the bank for his responsibility and solidity, and the information he can obtain through it as to the standing of any one with whom he may contemplate a business connection.²

§ 98. A few remarks on the important department of the general Money Market concerned with dealings in stocks and shares shall close this lesson.

Stocks,³ in the primary application of the word, means the government funds,⁴ but as used at the present day signifies any imaginary sum of money on which a given rate of interest is paid for a permanency. Moneys lent to railway and commercial companies are of this character.⁵ The word is, moreover, used loosely to describe all manner of 'securities.'⁶

By **Shares**⁷ is simply meant the capital of a company divided into so many equal parts expressed in round numbers, and when dealt with between seller and buyer they cannot be subdivided as stock can be; whilst the return upon ordinary shares, called 'dividend,' is dependent upon the profits realised, *i.e.* may differ from time to time. When fully paid

¹ *Wealth of Households*, § 678. ² See further. *Ibid.* §§ 593-617.

³ *Effekten*; *valeurs*.

⁴ As to these see in particular under 'Revenue.'

⁵ *BITHELL*, *s.v.*

⁶ *Wertpapiere*; *titres*.

⁷ *Actien*; *actions*. Cp. *LINDLEY, Law of Partnership*, "A share in a company signifies a definite portion of its capital." (Edn. of 1878, p. 254.)

up, shares are often converted into stock, which has more advantages.¹

§ 98*a*. Most readers, whether English or American, must be aware of the enormous development in English-speaking communities of enterprise conducted by means of combination of capital. British interests are scattered over the face of the earth. "Our investments," writes Sir T. Farrer, "are so widespread that we should never know whether in destroying an enemy's property we were not destroying our own. It was said that the timber we destroyed in Russia during the Crimean war belonged to English merchants. Had we gone to war with the United States about the *Trent* or the *Alabama*, and made prize of ships sailing from the East to New York under the 'stars and stripes,' we should have been destroying the security for advances made by London merchants."²

§ 98*b*. Just as there are Exchanges as centres for transactions in produce, so are there for dealings in stocks and shares. These are called 'Stock Exchanges,'³ and are to be found at all large commercial centres. They are held by regulated companies,⁴ the members of which in England are divided into *brokers*, who represent the outside public, and *dealers*, called 'jobbers,' to whom the brokers resort for their sales and purchases. We shall consider the operations of the London Stock Exchange fully in Part ii.

¹ See Companies' Act, 1862, §§ 23-25.

² *The State in its Relation to Trade*, p. 171.

³ *Effektenbörsen* (ROTHSCHILD, i. pp. 385 ff.); *bourses de fonds publics* (MERTEN, pp. 421 ff., *Reader*, § 67). The first institution concerned with dealings in a transferable 'funded debt' was the Rialto at Venice. So lucrative is the business, that on the Stock Exchanges at New York and Boston about £2000 has to be paid for membership.

⁴ See § 35 above.



LESSON XIII.

DISTRIBUTION: RENT AND WAGES.

Heads of Distribution—Economic Rent—Nationalisation of Land—
Wages of Operatives and Legislative Measures—Condition of the
Working Classes—Wages of Employers.

§ 99. IN this lesson the reader will enter upon the study of the third branch of economics spoken of at the beginning of the book.

The DISTRIBUTION¹ of wealth in modern society regulated by contract and competition. It has to be considered under the several heads of the landowner's share, the remuneration of the labour of employer and employee respectively, the capitalist's share, and lastly that of the employer not considered as a labourer.² Around these topics gather some of the most vital, anxious questions of life at the present day.

§ 100. By *rent*,³ or the Landlord's share, is always meant in economics the payment made to individual owners of agricultural land⁴ for the use of it by the respective tenants or occupiers.

In the earliest state of life among men of the Aryan race, to which most Europeans belong, the land inhabited by them was owned by the tribe, and was subsequently allotted among families. Individual proprietary rights were recognised at a

¹ *Verteilung ; répartition.*

² As to taxation, see below.

³ *Grundrente ; rente foncière.*

⁴ Mr. Danson, in his chapter on this topic, objects to the limitation of the term to a merely agricultural payment, on the ground that the convenience in such case afforded is but an isolated form of hiring.

comparatively late date¹ amongst those who wandered westward, but such have long prevailed in all civilised communities. In our own, amongst other countries, individual ownership has passed through several phases. In mediæval times it derived its special character from feudal institutions and usages, so that the *theory* of the law of English landed property still is that the sovereign owns all the land, but the effective ownership is of course individual. Rent, under this system, originated in the commutation by the intermediate lord of the services of the tenant for a money payment.

Independently of political institutions, the origin of rent is accounted for by Ricardo and Mill as follows. In every new country the most fertile land is that which, as a rule, first comes under cultivation. So long as any portion of this remains unappropriated, rent does not exist; but increase of population puts an end to this state of things. Agricultural produce is now in greater requisition, and accordingly fetches a higher price. The 'margin of cultivation' is widened by inferior lands being resorted to. The surplus yielded by the better lands puts them at a premium; in other words, creates *rent*. The process has only to be carried a little further for the augmentation of the payments first made.

The actual amount of rent is governed by utility and scarcity. Thus land near a town or railway will, if equally fertile, command a higher rent than land more remote from the market or from means of transit. Locality is the most potent factor in respect of land.

The reader should carefully observe that it is the rise in agricultural prices which produces a rise in rents, not the converse.² Advance of rent may be checked, as in England during the last twenty years, by importation of agricultural produce, which leads to a fall of prices. Agricultural improve-

¹ Rent in its early phases was fixed by custom, as it still is in some regions, such as Great Russia. In the more advanced societies it is everywhere governed by competition.

² Cp. WALKER, § 175.

ments which stimulate production at home have the like effect. On the other hand, if these do but diminish the cost of production, without swelling supplies of produce, profits will be greater, and rent will have an upward tendency.¹

§ 101. Rival schemes for the nationalisation of land, or return to the primitive order of things spoken of above, have of recent years been put forth by Mr. Henry George in *Progress and Poverty*, and Mr. A. R. Wallace in his *Land Nationalisation, its necessity and its aims*, in connection with which Professor Walker remarks, "Those who are now in school will probably be called upon to express their views, and take their position, as members of the public body, with reference thereto." We can only refer the student to his account of these proposals and criticism of them.²

§ 102. The rent of factories, warehouses, offices, and shops, in which other industrial and all commercial enterprise is carried on, is rather interest on capital expended in creating and keeping up such buildings. A manufacturer, accordingly, in a scientific analysis of the receipts from his business conducted in buildings upon ground of which he is himself the owner, after payment of wages and other outgoings, would have to abstract from the balance of his returns one portion equivalent to rent, and another representing interest on capital employed over the fabric, before he reaches his own remuneration for superintendence and risk respectively.

§ 103. By **wages**³ is of course meant the price of labour, or the Labourer's share. Under it we include the remuneration of the master for his superintendence of the work, but shall take that of the employee first, as of chief account.⁴

¹ This is brought out by Rodbertus, a former Prussian Minister of Agriculture, in his criticism of Ricardo. (*Zur Beleuchtung der Socialen Frage.*) ² Sects. 182-187. ³ *Arbeitslohn; salaire.*

⁴ A passage in the New Testament is of interest in this connection as having been much quoted by Irish priests during the time of the Land League: "the husbandman that labourereth must be the *first* to partake of the fruits." (2 Tim. ii. 6, in R.V.)

The distinction here at once presents itself between hired and slave labour, which has become of almost entirely historical interest. Apart from considerations of philanthropy and morality, forced labour must needs have been abandoned by observance of economic principles. Motives of self-interest prompting to industry and development of skill are here wanting: slavery has always hampered progress. The slave has no resources of his own: the effects of Russian serfdom have been seen in recent times in the inert, helpless condition of the peasantry in the districts affected by famine, who are unable to rise to an emergency.

Villenage in England came virtually to an end about five hundred years ago, but Scotch colliers and salters remained in a condition of partial servitude down to the closing years of the last century. As regards our colonies, the slave trade was abolished shortly after that, and the year 1833 saw the complete emancipation of every slave in the British dominions. The Portuguese now remain about the only European nation that has not cast off this reproach.¹

The lowest stage of hired labour is that in which labourers are paid in kind, rather than money.² Truck Acts have been passed from time to time to repress this: such as that of Edward IV. prohibiting truck in the woollen industry; but the last, in 1830, leaves agricultural labourers and domestic servants out of account. The system affords no sufficient protection against the employer's possible unfairness.

§ 104. The great regulative of wages, as of every form of stipend, is competition. Cobden put it thus: If two masters run after one workman, wages rise; but if two workmen run

¹ Slavery has been finally abolished in Brazil; but the action of the Portuguese in Africa is not in harmony with that of the other colonial powers.

² Chiefly now where they are housed and fed by the employer, as the Northumbrian hinds.

after one master, wages fall.¹ As between themselves, the competition² which is involved in it leads workmen to dislike being paid by *piece-work*, for the best craftsman has an advantage.³ The root of the matter is the relation between Capital and Population.⁴

The principle of demand and supply underlies more or less the different rates of wages in respect of (α) occupation and (β) locality; which explains why a coal-heaver or iron-puddler earns much more than his neighbour a farm labourer; and why a farm labourer in one part of a country may earn more than his fellow in another.

The efficiency of his work affects the labourer's own interest, and he has this very much in his own hands.⁵ Work best done and most highly paid is the most desirable, as it is cheapest in the end.⁶

As to the supposed dependence of wages upon profits, Mr. Danson writes: "The experiments hitherto made in England, in France, in Germany, and in the United States, to connect the rate of wages with the rate of profit, go no further than to show that though the goodwill of the workman, thus stimulated,⁷ often makes his labour more productive, he can do nothing to diminish the risk of his employer; and that though he is always willing to share profits, when they are made, he is unwilling, and often unable, to share the losses which, in most cases, come alternatively with profits, as the night comes with the day."⁸

An important point to observe is that the workman is paid in advance; before, that is, the employer knows the result of

¹ See further, DANSON, *Wealth of Households*, §§ 120, ff.

² *Ibid.* ch. xiv.

³ Cp. the plea often made for a 'fair day's wage.' Being paid *by time* is not as fair all round as payment by *piece-work*.

⁴ DANSON, § 126.

⁵ See WALKER, § 231.

⁶ See BRASSEY, *Work and Wages*, *passim*. ⁷ By a share of profits.

⁸ *Wealth of Households*, § 270.—This has an important bearing on Socialistic theories, to which reference will presently be made.

his enterprise. There is no intermediate forbearance on the part of the operatives.

A fall in the price of products in general consumption deeply affects the labouring class, as it indirectly raises their wages.¹

§ 105. It has to be confessed that legislation in past centuries was very one-sided, in favour of the dominant class in particular, the 'landed interest,' as it came to be called. The Statute of Labourers, passed after the Black Death, in the reign of Edward III., is a typical instance. Natural laws the ruling class sought to render inoperative, by enacting that labourers, favoured by excess of demand over supply, should receive the same wages as before the Plague, which had wrought such havoc in their numbers.² Again, the Combination Laws, such as the Act of George I., were an instrument of oppression; they hindered no joint action on the part of employers.

§ 105a. The repeal of the last-mentioned measures in the reign of George IV.³ enabled artisans to unite for the bettering of their material condition. *Trades Unions*,⁴ in some of their features reviving the old gild system, thenceforth sprang up, and were definitely recognised by the legislature in the Trades' Union Act of 1871, passed for discretionary registration of such societies and otherwise. These are associations of workmen

¹ On the other hand, if conflict between Labour and Capital, as often happens, lead to higher prices, because of increased cost of production, the higher wages are balanced by such advance, just as artificial increase of a country's money is no real advantage, as prices are proportionately higher.

² Under the Statute of Apprenticeship (1563) the justices fixed wages annually. A better provision had been made by earlier statutes, as one of Henry IV. (1390.) Mr. Huskisson obtained the repeal of all such laws.

³ At the instance of "the working man's friend," Joseph Hume.

⁴ *Gewerkvereine*; *associations de métiers*. The 'National Union of Clerks,' established in 1890, has for its object an improvement in the conditions of employment of another large class of the community.

for mutual help in struggle with employers. A fund is created by the subscriptions of the members, which is drawn upon in time of a *strike*,¹ that is, when workmen in any particular industry suspend work by concerted action, in order, if possible, to force compliance with their demands from the employers. The latter have frequently on their part resorted to a *lock-out*, or temporary dismissal of all their employees, and cessation of work.

But this strife, which cripples trade, may sometimes be alleviated by *arbitration*²; and an effort is now made to obviate resort even to that by means of Boards of Conciliation,³ with standing representatives of both Capital and Labour for the particular industry; the object of which is to bring the interested parties together for discussion and explanation at the earliest stage of any difficulty.

Another remedy, in principle more satisfactory than these, is found in industrial *co-operation*,⁴ of which Leclair's house-decorating concern in Paris affords a familiar illustration.⁵ Here the original proprietor took into partnership a considerable number of his workmen, who shared with him the

¹ *F. : grève*. Strikes may occasion suffering to others than the workmen in the special industry concerned. Thus the Durham colliers' strike of 1892 threw the Cleveland ironstone miners and limestone quarrymen also out of work, as their occupation depends on the maintenance of the coal industry.

² An agreement to pay wages according to a *sliding scale*, varying as the rise and fall of prices, has sometimes been the result.

³ Such as those organized by the London Chamber of Commerce in 1890.

⁴ Or productive, as distinct from commercial, co-operation. The latter finds illustration in the Rochdale Equitable Pioneers.

⁵ DANSON, §§ 263-263. Like attempts have been made in this country, but very few seem to have been equally successful. The business of Messrs. Maple, the London upholsterers—ranking, however, rather as a commercial concern—was reorganized on the basis of a private limited company, embracing the employees of the firm. The difficulty in *productive* co-operation is as to management.

risks of the business as well as profits, according to their shares.

Emigration has been a resource for many whose condition seemed incapable of improvement, and has been specially serviceable in keeping down increase of population. The Home Government¹ seeks to make this effective by supplying useful information as to openings for various mechanics in the different parts of the British Empire, or other regions, according to reports received from consular officers. Some persons, however, may be so destitute that this means of relief is impracticable. These swell the number of paupers. Since the beginning of this century money has been given by Government to such to aid them in emigrating to Canada, &c. By the year 1814 five thousand had been sent to the Cape. Since the year 1826 the number of emigrants to various parts of the world has gone on increasing.²

Pauperism before the Reformation was relieved by almsgiving, but through the misrule of Henry VIII. it had assumed such proportions by the accession of Elizabeth that parliamentary action was found necessary for the control of it, and down to the year 1834 her Poor Law of 1601 was the basis of all legislation on the subject. In the reign of George III. such abuses arose in the system of relief that a premium was put upon poverty, and employers took advantage of these to reduce wages. But the Poor Law Amendment Act of William IV., designed to keep down pauperism, inaugurated a better state of things. It gave an impetus to labour, and the better administration of the law has contributed to the removal of many blots on the social condition of the people.

§ 106. Thus far we have spoken of reformatory, but something must also be said of revolutionary, measures or proposals for uniting the interests of the classes into which the community is divided.

¹ Through a department of the Colonial office.

² Of the emigrants that have left our shores during recent years about two-thirds on an average have gone to the United States.

Communism is the levelling of all interests, so that all persons should share alike in the wealth of the community. No provision, however, is or can be made for securing like industry from or capacity in all; and self-interest has here no scope.

Socialism follows in the same direction so far as regards the confiscation of all capital to the State, but has to amend communistic theories by providing for reward proportionate to work done. Its 'fraternal government' would be tyranny none the less, because all individual enterprise would be at an end. Enlightened governments seek to meet the demands made, as far as can be done prudently, by legislative improvements. Thus, recognition has been given to the principle of State education in the Code by which elementary schools are governed, and in various measures directed to the elevation of the masses, amongst which we may mention the encouragement given to thrift by the Post-office Savings Bank, and Mr. Chaplin's Act for the creation of Small Holdings, with a view of wider diffusion of property, which, however, has already become a dead letter in some English districts.

Nihilism and *anarchy* are but socialism run mad. The name of each system speaks volumes—they alike contemplate the complete disruption of society.¹

We may bring this portion of our subject to a conclusion by noting the vast improvement that has taken place during recent years by economic laws being allowed to operate. Mr. Giffen has calculated that workmen now obtain at least 50 per cent. more money-wages for 20 per cent. less work than they did at the commencement of the present reign.² The 'standard of comfort' has become very different.

§ 107. The wages of the Employer are usually considered under another head, being regarded, under the description of

¹ See, for example, the recently published work of Prince Krapotkin, a Russian anarchist, entitled *La Conquête du Pain*.

² In his inaugural address before the Statistical Society, 1883.

'wages of superintendence,' as one of the elements of Profit,¹ but are better taken² in this connection.

The employer's remuneration is determined by his own labour and skill,³ of which due account should be taken in considering the relation of 'profits' to the wages of the employed, who are apt to give no place to *his labour* in their calculations.

The remaining topics of Distribution must be reserved for the next lesson.

¹ As by MILT, ii. xv. 1.

² As in the text book of Prof. Symes.

³ See WALKER, § 221.

LESSON XIV.

INTEREST AND PROFITS.

Capitalist's Share—Profit considered as Remuneration for Risk—Contract of Debt—Accounts.

§ 108. INTEREST¹ is the Capitalist's share, his reward for abstinence or forbearance from consumption. It is usually distinguished by writers on economics as another of the elements of Profit; in strictness to be eliminated from it;² although of course the two may go to the same person, as in the case of everyone who carries on business solely with his own capital.

The law of supply and demand here again operates. The rate of hire will be relatively high if there are few lenders compared with the number of borrowers; low, if there are many lenders and few borrowers; the money market being respectively described as 'stringent' and 'easy.'

Different rates constantly prevail in different markets at one and the same time. Thus, in 1892,³ when the official rate for money in London was 2 per cent.,⁴ that at Lisbon was 7 per cent., the difference being due in the main to the insecurity and instability of affairs in Portugal as contrasted with England.⁵ In

¹ *Kapitalsins*; *intérêt du capital*. Note in English the contraction 'int.'

² *Infra*. ³ April 21st, 1892.

⁴ Already in the reign of William III. the prevailing rate had sunk to 4 per cent. 'Cent.' is of course short for *centum*.

⁵ A fraction less than the rate just mentioned represents the average obtained upon British and Colonial Government securities, which may be compared with the similar average in France of 5½, of Italy 5½.

the older countries there is a tendency downwards of the average rate. Thus, in Roumania twenty-five years ago the rate of commercial interest was sometimes as high as 18 per cent., but now under the rule of King Charles it is generally about 4 per cent.¹

§ 108*a*. The reader should bear in mind the difference between nominal and effective interest. Interest at a nominal annual rate² paid half-yearly may be made more lucrative than that actually paid at intervals of twelve months. In England fractions of a year are reckoned upon a full year of 365 days, but in the United States 'accurate' interest gives place to that based on a year of 360 days, that is, each month is taken as containing thirty days. So usually in German accounts.

§ 109. The capitalist as a person distinct from the worker did not exist in mediæval times; the gild craftsman made use of his own capital alone. That system of things was of course connected with the doctrine of the Church as to the unlawfulness of interest, which was indiscriminately called 'usury.' The theory of the canonists was based on the Mosaic legislation,³ which, however, only affected the relations of Israelites among themselves, and was directed to the creation of a barrier between them and the surrounding nations. Many English statutes were enacted in restraint of interest from the time of Henry VII. to that of Anne; in the first case no higher rate was sanctioned than 10 per cent., in the last nothing beyond 5 per cent. These laws have all been repealed in the present reign.

§ 110. **Profits**⁴ theoretical economists⁵ generally resolve into returns for abstinence⁶ and exertion, in addition to remuneration for risk.⁷ Mr. Danson, who speaks for 'good

¹ In times of good trade 7 per cent. may be obtained in the East on the best security, according to local estimation.

² 'Per annum' is sometimes contracted into 'p.a.'

³ Leviticus xxv. 36; Exodus xxii. 25; Deuteronomy xxiii. 19, 20.

⁴ *Gewinn*; *profit*.

⁵ See, for example, MILL, bk. ii. ch. xv.

⁶ *Supra*.

⁷ Sect. 108-*ad init.*

men of business,' treats Profit, on the side of Production in particular, as payment for risk judiciously incurred, and for nothing else.¹ This view, as he says, certainly underlies commercial law: it runs through the law of partnership, and the rules governing the relations of principal and agent in every legal system. Business in the United States is characterised by greater profits than those earned in England, and yet more than those obtained in Continental countries; the explanation of which is to be found simply in the specially venturesome spirit of American citizens.²

It is the work of the dealer to estimate future probable value, to equalise supply and demand. This is his service to society. Here again Parliament erred in the past by its measures against 'engrossing,' 'regrating,' &c.³

Gross profits, or 'returns,'⁴ are represented by the "excess of sales plus closing stock over commencing stock plus purchases." Nett profits represent "the result after the working expenses have been deducted."⁵ It is the latter alone which are contemplated by economists.

§ 111. The practical aspects of Distribution, for which the ordinary education of boys on the 'modern side' of their school should have prepared them before their entering upon office life, will now engage attention.

First, let us examine the contract of **debt**.⁶ "This," Blackstone says, "may be the counterpart of, and arise from, any of the other species of contracts." The right of the creditor (Cr.)⁷ to a certain sum of money due from the debtor

¹ See *Wealth of Households*, ch. on 'Profit' in particular, § 221.

² *Ibid.* § 297.

³ *Ibid.* § 232.

⁴ This word is also used for the *nett* proceeds of a consignment. (§ 183 below.)

⁵ See *Manual of Book-keeping*, by Percy Child.

⁶ *Schuld*; *dette*.

⁷ *Gläubiger*; *créancier*.

(Dr.)¹ is, in the language of English law, a 'chose in action.'² Our classical commentator divides debts into those of 'record,' debts by *special* and debts by 'simple' contract. A reference to the explanation given of these last terms in the Fourth Lesson will here suffice. Blackstone exemplifies debts by specialty by a deed of sale and bond or obligation, and goes on to say of simple contracts: "It is easy to see into what a vast variety of obligations the last class may be branched out, through the numerous contracts for money which are not only expressed by the parties, but virtually implied in law."³

Bill debts, it will be remembered, fall under the category last mentioned, and are exceptions to the rule as to consideration being essential to the validity of simple contracts.⁴

§ 112. A person having to receive money, who is not paid cash on delivery, proceeds to obtain payment by rendering an 'account.'⁵ We have next, therefore, to look a little at those branches of school education which lead up to the knowledge of a keeping of accounts. Arithmetic and Algebra provide the basis, whilst Book-keeping forms the complement of calculations in Commerce and Finance: we have first to understand operations with figures, and then to embody such in an orderly series of accounts.

Arithmetic⁶ is not only one of 'the three R's,' but beyond question the chief factor in commercial education. There is not a single transaction in business, from a simple order for goods to a complicated arbitration, which is not dependent on

¹ *Schuldner* ; *débiteur*. Each set of words now of course comes before us in the narrower meaning attached to them.

² See the useful explanation of this term in BITHELL's *Dictionary*, where the difference between a chose 'in possession' and a chose 'in action' is exemplified by the distinct rights arising from a consol bond and from the dividend upon it.

³ *Commentaries*, vol. ii. pp. 464 ff.

⁴ Sects. 86 f.

⁵ *Rechnung* ; *compte*. The English word is contracted into a/c.

⁶ *Arithmetik* ; *arithmétique*.

its correct application. Commercial arithmetic is to ordinary computation what shorthand is to common handwriting.¹

The leading subjects of commercial arithmetic² are: Percentages, Interest and Discount (of goods or of money), Accounts Current,³ Partnership Accounts, Alligation, Arbitration of bullion, Exchanges and computations in respect of bills and stocks, Arbitrations of merchandise, and Estimates regarding produce.

Rapidity should be acquired, particularly in Multiplication⁴ and Division, Proportion and Percentages as applied to money, interest, bills, and goods. Commercial arithmetic has developed means of avoiding vulgar fractions: suppressing, for example, those under $\frac{1}{2}$.

§ 113. Our complicated system of weights and measures renders 'mental' arithmetic of great importance in this country; it has nevertheless been much neglected hitherto. The existing system has been regulated by various statutes, the chief of which were passed in the year 1825 and 1878.⁵ Any trader not complying with the regulations in force is liable to prosecution; formerly he would have been put in the pillory. Practice is still not uniform with regard to the measures or weights of the same trade. Thus wheat is sold at Norwich by the quarter (qr.), at Leicester by 36 stone, at Cambridge by 540 lbs.

The metric system, originated by the French during their great revolution (1795), and largely followed by other countries,

¹ AMTHOR, *Kaufmännische Rechnung, ad init.*

² At the Antwerp *Athénée* this falls under 'Commercial Science,' taken by the fourth or middle form of the school.

³ *Infra*.—In the Leipsic syllabus this comes in *Counting-house Work*, which is taken by the middle class of the higher division.

⁴ Addition should be practised laterally as well as perpendicularly, to afford a check on false casting.

⁵ The standard yard measure, a bar of bronze, and the standard pound weight, of platinum, to which the respective measure and weight must conform, are kept in the Standards Department of the Board of Trade. From these all other legal measures are derived.

still awaits acceptance in England.¹ Although a man may sell by the *mètre* instead of the yard, he is not allowed to keep that measure for actual use !

We cannot lay too much stress on the fact that the continued use of the British weights and measures tends to check trade between ourselves and nations using only decimal computation, and it is certain that the claims of the latter must prevail.²

In dealing with accounts in general it is necessary to understand such expressions, already in this Lesson employed by us in speaking of 'Profits,' as *gross*,³ applied to the full weight or value of the goods concerned, and *nett*,⁴ which indicates that one or more deductions have been made from such full weight or value ; as, in the one case, in respect of the weight of the bales, cases, or wrappers in which the goods are transported, which gives rise to the terms 'draft' and 'tare' ;⁵ in the other, in respect of 'discount' ⁶ for immediate or short payment.

§ 114. The examination of foreign accounts and market reports requiring knowledge of systems not only of currency,⁷ but of weights and measures frequently very different from our own, we proceed to notice the measures and weights used by the leading countries with which, and their English equivalents,

¹ See Brooke-Smith's larger *Arithmetic*, p. 148, as to the inconvenience which would be at first felt in the transition from the one system to the other.

² An Association has been formed for the purpose of keeping the subject before the public attention. The Elementary Education Code now contains a provision for instruction in the metric system in the higher standards. Teachers in primary schools had long favoured the change.

³ *Brutto* ; *brut* (the last letter of the French is sounded).

⁴ *Netto* ; *net*. Formerly spelled 'neat.'

⁵ *Tara* ; *tare*.

⁶ Stated as, so much 'per cent.' A percentage is commonly denoted by the symbol % following the figure. Cp. ‰, for 'per mille,' as when the *tolerance* allowed to the French mint is stated as ‰ (cp. § 75 note).

⁷ See § 78 above.

the student should become familiar. Those based on the French metric system are of most importance.

The four French units of the classified weights and measures are the *gramme* (kilogramme), *litre* (hectolitre), *mètre*¹ (kilomètre), and *are* (hectare). The multiples of chief commercial importance we have enclosed in brackets. Belgium, Italy, Spain, Portugal, Holland, Germany, Denmark, Sweden and Norway, Greece, etc., have either accepted the system in whole or in part. Some retain old names of weights or measures, although these have been altered in substance. France herself has not banished *aune*, *livre*, *barrique*, *quintal*, *tonneau*, etc.; whilst the German Empire and Austria-Hungary adhere to *Kanne* (for *litre*), *Pfund*, *Centner*,² and *Tonne*; Holland, to *el*; Belgium, to *arpent*; Spain, to *onza*, *libra*, etc.; and Switzerland, to *Fuss*.

In certain trades some one name is still used with different values in different regions, such as *Last* in grain; and in the Mediterranean *Kantar* is still widely used as a measure for oil, brandy, etc.

Russia shares with Great Britain the peculiarity of having an isolated system. There a clerk must learn the meaning of a *pood*, *chetwert*, *anker*, and *verst*.

The weights and measures used in the United States are almost entirely the same as the British. The special features are that the old Winchester bushel (bsh.) is still followed, which is rather smaller than the imperial measure; that besides the old hundredweight of 112 lbs. which, as the 'long ton' or 2,240 lbs., is the only one recognised by the Custom House and certain trades in various parts of the Union, the *cental*³ of exactly 100 lbs. and 'short ton' of 2,000 lbs. are common measures at New York,⁴ Boston, &c.

¹ In trade, 12 yards are taken as equivalent to 11 *mètres*.

² Nearly equal to our 'cwt.'

³ Also called *quintal*. It is recognised on this side, at Liverpool, in the grain trade especially. But the quantity of wheat warehoused is expressed in *tons*.

⁴ Coal, however, is there still dealt in according to the old cwt.

The most usual measure, other than British, used in India is the 'maund.' Besides the 'bazaar maund,' which is official, there is a 'factory maund,' ten per cent. lighter.

Market reports in the China trade bring before us the *picul* and *catty* as customary measures of native origin.

§ 114a. The English before the Conquest had a very imperfect system of weights and measures. The Normans, who also taught the conquered race the use of accounts, introduced Troy measure,¹ which was superseded by 'avoirdupois,' except for weighing gold, silver, &c.² The yard measure is said to have been settled by reference to the length of the arm of Henry I.

§ 115. **Algebra**, besides being required for the calculations of actuaries in insurance business, is indispensable for the higher work of auditors.³ Hence examination syllabuses single out its application to indirect questions of compound interest. Every pupil intended for business, as Safford says,⁴ should learn a good deal of Algebra before he begins his technical course.⁵

§ 116. In **Book-keeping**⁶ the first thing a pupil has clearly to apprehend, after the need of such a thing as a safeguard against insolvency, is the distinction between Single and Double-entry. Single-entry can only register assets⁷ and liabilities;⁸ it does not exhibit gain or loss. On the other hand, if every debit entry have a countervailing credit entry, or *vice versa*, there is not only a check on mistakes, but a man in business can quickly ascertain his position. Retailers, how-

¹ The first letter in 'dwt.' is for *denarius*; 'lb.' is for *libra*. ² *Infra*.

³ See next section. ⁴ In an essay on Mathematical Teaching.

⁵ Problems in interest and discount are commenced by pupils of the Antwerp *Athénée* already before reaching the middle form of that school. They have entered upon the application of algebra to exchanges, arbitrages and finance when promoted to the highest form, where they take up its use for stocks, the repayment of loans, &c.

⁶ *Buchhaltung*; *tenue des livres*.

⁷ *Aktiva*; *masseactive*.

⁸ *Passiva*; *passif*.

ever, still generally content themselves with Single-entry ; but all merchants, bankers, and companies make use of the more scientific system,¹ which is based on the axiom that 'the whole is equal to the sum of all its parts.'

§ 117. Double-entry, as now practised, is said to have been first used by the Italian traders in the fifteenth century. But the old Roman system of keeping accounts is a crude form of it.² From his *adversaria*, or 'day book,' a Roman trader made transfers to his *tabulae*, or 'ledger,' monthly. With the consent of his debtor, he entered to the debit of the latter any sum due to himself under the head of *Expensum*, and he then technically paid, *i.e.* credited himself for it, under the head of *Acceptum*.³ Thus was created what we call an 'account stated.'⁴ The converse process might be applied to the debtor's ledger, but this was optional. The transfer we have described Gaius speaks of as *a re⁵ in personam*. If, however, the debtor made himself responsible for the debt of a third party, such assignment was said to be *a persona in personam*. Their methodical keeping of accounts is characteristic of the Romans, for it belongs to the old national Roman law.⁶

§ 118. The 'ledger' is the leading book of account, as expressed by the designations it bears in German and French.⁷ The accounts kept in it are classified as personal, property, and nominal (fictitious), according as they represent individuals (firms, companies),⁸ cash, merchandise, &c., or profit and loss respectively. Personal and property accounts form but different kinds of real accounts. The 'real' accounts, representing the

¹ School book-keeping should be confined to the English form of double entry, the American and German systems being reserved for after study.

² HAMILTON and BALL, *Manual of Book-keeping*, p. 2.

³ See *Gai.* iii. §§ 128 ff. ⁴ *Infra.* ⁵ For example, a sale.

⁶ For example, a sale.

⁷ *Jus civile*. An interesting passage in the classics bearing on it is Cicero 'in Verr.' ii. 1-60. See also Horace, 'Ars Poetica,' beginning "Romani pueri longis rationibus assem discunt in partes centum diducere." (l. 325 f.)

⁸ *Hauptbuch ; grand livre.*

⁹ Bills payable (B/P) and receivable (B/R) fall under this head.

parts, and the 'nominal,' representing the whole (capital), are set over against each other as an essential feature of book-keeping by Double-entry.¹

The subsidiary books in general use are :

(1.) The *Cash Book*,² in which are 'entered' sums received and paid in cash, with columns for discounts allowed ;

(2.) The *Bought (Invoice) Book*,³ in which are 'entered' goods bought on credit ;

(3.) The *Sales Book*,⁴ in which are 'entered' goods sold on credit⁵ ;

(4.) The *Warehouse Book*,⁶ in which are 'entered' goods forming the stock.

The transfer of entries from the subsidiary books to the ledger is called 'posting,' and the accuracy of the whole is tested by the 'trial balance.'

Besides the use of the above must be mentioned that of the *Journal*⁷ as an intermediate book, which is now, in accordance with the opinion of some chartered accountants,⁸ dispensed with to a large extent. Use should be made of it for opening and closing entries, and for transactions of which a special temporary memorandum is needed. The journal has only a Dr. form. Noticeable supplementary books are those for bills and for accounts-current.

The disrepute into which Book-keeping as a school subject had fallen down to a recent period is traceable to the mistaken

¹ See CRELLIN'S '*Book-keeping for teachers and pupils*,' pp. 33-37. There are no impersonal accounts in Single-entry.

² *Kassenbuch ; livre de caisse.*

³ *Einkaufsbuch ; livre d'achats.*

⁴ *Verkaufsbuch ; livre de ventes.*

⁵ Nos. 2 and 3 combined give a 'day book' (*Kladde* or *Memorial ; brouillard*), one perhaps being kept for wholesale, another for export, and a third for retail. It is found convenient to have one ledger for sales, and another for purchases.

⁶ *Lagerbuch ; livre de magasin.*

⁷ *Journal ; livre-journal.* The latter is indispensable under the *Code de commerce* (sect. 8), followed by the Italian Code.

⁸ *Infra.*

postponement of work upon the ledger to the detailed consideration of other books of account. Professor De Morgan showed that it is in ledger work that the main *principle* is learnt.¹

§ 119. In the multifarious and complicated transactions of modern business, the need must ere long have been felt of a class of men who should devote themselves entirely to the duties involved in the management and manipulation of accounts, who should develop the best methods, and whose work would acquire a professional character. Thus arose the class of public accountants,² the chief of whom in England are the members of the Institute of Accountants, to which, a few years ago, was granted a Charter, its members thenceforth being designated 'Chartered Accountants.'³

The duties of a professional accountant, as distinct from those of a book-keeper on the staff of a particular business house, may be gathered from the syllabus of subjects in which his articled clerks are examined before the latter can engage in practice: advanced book-keeping and accounts, auditing,⁴ adjustment of partnership and executorship accounts, the rights and duties of liquidators, trustees, and receivers,⁵

¹ As regards examinations, we may note the very good syllabus of the Irish Board. (1) For juniors: "Definitions of terms used; forms and objects of various books; posting, balancing, and closing the ledger; balance sheet; stock-taking; bad debts; bills; discounts; commissions; profit and loss; furnishing accounts; and carrying through all the ordinary transactions of a merchant's office. (2) In addition to the above, for seniors: Methods for detection of errors; adjustment entries; partnership transactions; reserve, depreciation, and suspense accounts (cp. above under *Journal*); transactions in connection with exports and imports; forms and uses of various shipping documents, and accounts in relation thereto."

² *Bücherrevisoren*; *agents comptants* (*experts comptables*). Reference has already been made to these in the previous section.

³ Examinations are held by this body for articled clerks of its members.

⁴ An auditor (*Auditor*; *auditeur des comptes*) is one who at set times is employed to collate or examine accounts, check postings, verify invoices, vouchers, &c., in order, if so be, to attest the accuracy of such accounts.

⁵ See at the end of the present work under "Bankruptcy."

arbitrations and awards, Mercantile Law, the principles of Company Law,¹ Bankruptcy Law, and general commercial knowledge. The acquirements of such a young man should therefore be very varied. Part of his work will be akin to that of a solicitor; much of it will demand acquaintance with various branches of trade and finance. A public accountant will be better able than an ordinary book-keeper to dissect books kept in any conceivable way. His eye must be practised in the detection of fraud in figures, notably the treatment of capital as income, which may easily be disguised from many men otherwise competent in general business.

¹ As in seeing that a company's operations have not been *ultra vires*.

LESSON XV.

CONSUMPTION: TAXATION AND TRADE POLICY.

Nature and Forms of Taxation—History of English Taxation—Principles of Taxation—Protectionism—Incidence of Taxation—The National Debt.

§ 120. THE subject of National Revenue may be treated under either the head of Distribution or that of CONSUMPTION,¹ according as significance is to be attached to the creation of such income or to the application of it.

*Taxation*² is the means employed by the Treasury of each State for raising a fund to meet the expenses of government. The Minister of State who organizes and manages the revenue is called in England 'Chancellor of the Exchequer,' in other countries 'Minister of Finance.' The table of duties is called the 'tariff.' Taking the way in which the British revenue is collected as the basis of a division, we may say that there are three main sources from which it is derived.

(1) Excise, or 'inland revenue.' Under this fall licenses for the sale of tobacco, wine, beer, and spirits, and railway duty. We may associate with it the revenue derivable from property or income, from taxes on contracts, represented by stamps on receipts, bankers' notes, policies of insurance,³ bills of lading,⁴ and other negotiable instruments.⁵ This branch of the revenue is under the immediate charge of the Board of Inland Revenue, subordinate to the Treasury.

¹ *Verzehrung*; *consommation*.

² *Steuern*; *impôts*.

³ See next Lesson.

⁴ See Part ii.

⁵ See MILL, v. v. I.

(2) Customs,¹ or taxes on foreign trade, are duties leviable on certain commodities brought into or carried out of the country, such as tea, wine, currants, tobacco. According to the present British system, duties are in fact imposed on imports alone, as wine and tea. They are balanced by excise duties on the same commodities, the significance of which will appear presently. This portion of the revenue is raised under the superintendence of the Board of Customs, also subordinate to the Treasury.

(3) Revenue arising from the postal and telegraph services, which are Government monopolies.² The Inland Post was vested in the Crown in the reign of Charles I., when the General Post-office was established. The telegraph services were taken over by the Government in the year 1870.

§ 121. The first tax, we may repeat, ever levied on commerce in this country was the Saladin tithe, in the reign of Henry II. The arbitrary practices of the worst of our kings in respect of taxation were chief amongst the grievances redressed by the Great Charter. The Charter was confirmed in the reign of his son, and again even under the rule of so wise and just a monarch as his grandson. By the *confirmatio chartarum* (1297) Edward I. definitely assented to the principle that the positive sanction of Parliament should be necessary for taxation; and after the insurrection in the reign of Richard II., caused by the levy of a 'poll tax,' an act was passed under Henry IV. (1401) for further vesting the control of taxation in the House of Commons specifically. The abuses practised by James I. and his son led to the 'Petition of Right' (1628), the provisions of which in this connection were finally clinched by the 'Bill of Rights' (1689).

§ 122. The *Excise* in particular dates only from the latter part of the reign of Charles I.³ The income tax, which was already levied under the younger Pitt, has

¹ *Zölle*; *droits de douane*.

² MILL, v. v. 2.

³ See DOWELL, *History of Taxation*, vol. i. pp. 59 ff.

been a continual charge since the second administration of Sir Robert Peel (1841-1846), to which a deficit had been bequeathed by Lord Melbourne's Ministry. The tax on income revived by Peel was designed to make this up.

Great reforms were effected by Sir R. Peel's British fiscal policy in development of those inaugurated by Huskisson. (1823-27.) The extent to which taxation had been carried was humorously portrayed by Sydney Smith. "The schoolboy whips his taxed top; the beardless youth manages his taxed horse with a taxed bridle on a taxed road; and the dying Englishman, pouring his medicine which has paid seven per cent. into a spoon which has paid fifteen per cent., flings himself back on his chintz bed, which has paid twenty-two per cent., and expires in the arms of an apothecary who has paid a licence of one hundred pounds for the privilege of putting him to death."

§ 123. The *Customs* are more venerable than the Excise, as the parliamentary recognition of these belongs to the reign of the 'English Justinian.' By the first 'Statute of Westminster' (1275) a grant was made to the king of the old and great customs on wool and leather. This was the legal foundation of English customs.¹ The 'Charta Mercatoria,' or statute 'de nova custuma,' originated import duties.² James I. endeavoured to throw off the restraint of Parliament by the issue of Cecil's *Book of Rates*, which increased the Customs considerably. Such additions, called 'impositions,' were levied under the Great Seal alone. The question coming before the judges in *Bates's case* was subserviently decided by them in the king's favour, but was of course ultimately settled by the Bill of Rights seventy years later. The complaint made by the Parliament of 1626 with reference to tonnage and poundage on goods was as to the levy being upon the king's

¹ STUBBS, *Early Plantagenets*, p. 220.

² *Ibid.*, p. 243.

warrant alone. The duties as such dated from the time of Edward III.¹

§ 124. The principles of taxation, sanctioned by economics,² are the following : (1) The amount, the manner, and method of payment of the tax should be fixed in advance. (2) It should be levied at a time convenient to the tax-payer. (3) It should not be of such a nature as to encourage fraud upon the Exchequer. (4) It should be in proportion to the ability of the tax-payer to pay. (5) It ought not to fall on raw materials, or means of production, but should be levied on the manufactured product. (6) It should be moderate in amount, so as not to discourage production. (7) The expense of its collection should be as small as possible.

Eastern countries exhibit most violation of the first rule.

It was in keeping with the second that Walpole introduced his Excise Bill, in which he proposed to establish warehouses where goods imported could be stored under the control of the Revenue officers, and payment of the duties thereon were to be deferred until such goods were sold. The opposition to this measure arose partly from the fear of the merchants at the time that they would have to pay more in the end ; whereas the intention was to curtail the amount levied by saving the interest on the tax, which the trader included in the price.³ Walpole had also hoped by his Bill to put down smuggling.

¹ DOWELL, *History of Taxation*, pp. 165 ff. The toll was in the nature of a premium paid to the king for insurance against pillage. (p. 75.)

² Adam Smith borrowed his maxims from Turgot. (ROGERS, *Economic Interpretation of History*, pp. 45 ff.)

³ Walpole seems to have aimed at making London the market of the world. It was not until the year 1803 that his proposal was carried out, by Mr. Pitt ; and Liverpool, where docks had been built one hundred years earlier, at once availed itself of the new arrangement. The Genoese had centuries before been granted such warehouses at Alexandria, and Colbert had introduced the system in France. See further in Part ii. under "Warehousing System."

The raising of revenue by Income Tax represents an endeavour to conform to the fourth rule.

The revised tariff of Sir Robert Peel in 1845 complied with the fifth and sixth rules.

He followed the example of Huskisson, and the teaching of Sir Henry Parnell,¹ in reducing taxation, so as to bring down the number of dutiable articles from 1,150 to 590. Peel's work was taken up by Mr. Gladstone in his celebrated Budget² of 1853, and again in 1860,³ when the number of articles chargeable became only 48. Other duties have since been 'given up: hops in the year 1862, pepper and timber in 1866, corn and rice in 1869, sugar in 1875.

§ 125. Customs' duties, according to the commercial policy of a country, are levied either from considerations of *internal finance*,⁴ or by way of *protection*⁵ to native industries. Great Britain has within the last fifty years adopted the system of 'Free Trade,'⁶ consulting only the actual needs of her revenue, whilst most other countries, with some British colonies, uphold the system of 'Protection.'⁷

§ 126. Duties levied under the first mentioned system are either 'specific,'⁸ that is, estimated according to weight or measure, or *ad valorem*,⁹ i.e. reckoned at so much per cent. of the value of the goods. One principle that guided Mr. Glad-

¹ In his *Financial Reform*.

² This word, applied to the Chancellor of the Exchequer's annual estimate of receipts and expenditure submitted to the House of Commons at the beginning of April, is from the old French *bagôte* (a small bag for the papers).

³ The Crimean War intervened to impede these reforms. When so high as entirely to hinder importation of the things, they are called prohibitive (*prohibitivzölle*). Such were the duties on French wines before 1786.

⁴ In German: *Finanzzölle*.

⁵ *Schutzzölle*; *droits protecteurs*.

⁶ *Freihandel*; *libre-échange*.

⁷ *Schutzzollsystem*; *protectionisme*.

⁸ *Gewichtszoll*; *tarif au poids*.

⁹ *Wertzoll*; *tarif à la valeur*.

stone in his first great Budget was that of preferentially making duties specific; but the other method is still applied to the taxation of French light wines, and in the United States prevails to a very large extent, in some cases both kinds of tax being at the same time levied on the same commodity.

A 'drawback' (dbk.),¹ as defined in the present Customs Regulations, is "a repayment to the proprietor of duty on certain goods on their receipt into warehouse or exportation." The effect is to keep down the price of the goods at the place of destination. Drawback is allowed in this country on the re-exportation of coffee and tobacco; and the document used is called a 'debenture' (deb.).²

§ 127. Amongst protective duties are some called 'differential,'³ such as those which used to be levied in favour of West India proprietors. They are of diverse amount, according to the country from which the particular article comes. The Customs' officers require in the case of any such a 'certificate of origin,'⁴ attested by a consul or other recognised authority.

Mr. Gladstone largely reduced the number of British differential duties in 1853, and all were swept away by his Budget of 1860, when also the last remnant of English protectionism disappeared. "There will be," he said, "a sweep—summary, entire, and absolute—of what are known as manufactured goods from the face of the British tariff."⁵

§ 128. Let us here trace the course of English trade policy. As early as the reign of Edward III. we find legislation

¹ *Rückzoll*; *prime de réexportation*.

² Not to be confounded with another meaning of this word. See under 'Stocks.' The German is *Passierschein*; the French, *acquit à caution*.

³ *Differentialzölle*; *droits échellonnés*. Some tariffs exhibit minimum and maximum scales, the latter applicable to countries which do not effectively negotiate better terms.

⁴ *Ursprungszeugniss*; *certificat d'origine*.

⁵ Cited by BASTABLE in his chapter on the English Customs system, 1815–1860. (*The Commerce of Nations*, p. 64.)

directed against the importation of manufactured iron. An Act of Edward IV. prohibited that of corn when prices should be low. These may serve as illustrations of the country's policy in the mediæval period.

We have already spoken of the Navigation Laws,¹ which Adam Smith commended as being, he thought, required by expediency. Very different was his view of the Colonial System, the pursuance of which, dating from the reign of Charles II., created the germ of discontent in the American 'plantations' that broke out in the next century. Great Britain treated her colonies as the Spaniards theirs: the colonists were restrained from trading with any other than the mother-country, and from engaging in manufacturing industry. They were thus tied down to a 'sole market,' and the growth of their own prosperity was hampered. Smuggling and piracy were consequently rife amongst the colonists of each country, and led to hostilities between them.²

Matters were not mended as regards protectionism by the accession of William III., at the beginning of whose reign Parliament began to grant bounties³ on exports either openly, as on that of corn, or under the disguise of drawbacks. These bounties were designed for the 'encouragement' of domestic industries. Some portion of the money was derived from taxation of commodities imported which could have been raised in England.⁴ Drawbacks of the kind now referred to were the return of duties paid upon the imported raw material when the manufactured articles were exported. No consideration was shown to Scotland any more than to Ireland. The Scotch were not allowed to trade with the colonies, and it was with the view of breaking through these barriers that the Darien

¹ Sect. 69.

² The system is well set forth in LECKY'S *History of England in the Eighteenth Century*, vol. iii. pp. 299, ff.

³ *Prämien*; *primes*.

⁴ Such specially prohibitive duties were introduced in the year 1696.

Company was formed, which was however doomed to failure. In the reign of Anne, the Scotch Parliament passed the Act of Security (1704), in derogation of the Act of Settlement (1701), to which the English government retorted by excluding Scotch linens from the southern market. These differences were, however, happily ended by the parliamentary union of the two countries shortly afterwards.¹

The commercial rivalry of nations was occasionally mitigated by commercial treaties. Such was the 'Magnus Intercursus' between England and Burgundy in the reign of Henry VII.; and to the epoch we have been considering belongs the celebrated Methuen treaty with Portugal, which opened the Portuguese market to English manufactures in consideration of an easier market being given in England to the wines of Portugal. This produced a greater friction with France, which was only removed for a short time by the Eden treaty with that country. (1786.)² Another such agreement of the time was the Asiento contract with Spain, ancillary to the Treaty of Utrecht.

§ 129. The Methuen Treaty was extolled at the time as a masterpiece of English diplomacy. The covert idea seems to have been to attract Brazilian gold to this country. We have reached a suitable point for some remarks on the so-called Mercantile Theory, which long dominated English commercial policy, as that of other European States having any considerable foreign trade. The prevalence of this theory called forth Adam Smith's great work³ devoted to its refutation.

¹ As to the commercial aspects of the Union, see STANHOPE, *Reign of Anne*, ch. viii., pp. 256 ff.

² GREEN, *History of the English People*, p. 772. See note above as to prohibitive duties on French wines. Bolingbroke had sought to bring about a like treaty in 1713; but his proposal was rejected by the Whigs.

³ The *Wealth of Nations*, published in 1776, the same year as that in which Turgot issued a decree in recognition of the freedom of labour. (See *French Reader*, p. 58, note.) Upon Adam Smith's doctrine, called by Laveleye *l'évangile de l'économie politique*, see ROSCHER, pp. 175 ff.

The idea which the father of Political Economy specially combated was, that the wealth of a country consists of money. In order that money might be accumulated, every nation had fostered its export at the expense of its import trade, not seeing that exports are really paid for by imports, and that a check on these must prejudice exports. According as the value of the latter was greater or less than that of the imports, the balance of trade¹ was regarded as *favourable* or *unfavourable*.²

It was reserved for a French writer³ to show, from statistics of English trade in the last century, that the excess of exports over imports had not the effect as to accumulation of money which was assumed by the supporters of the old doctrine.

David Hume had shown⁴ that there could be no permanently 'favourable' balance; the accumulation of money in any country raises prices, lowers the value of money, and so leads to its exportation, by which the balance is redressed. Again, as McCulloch has rightly said, "There could be no motive to export any species of produce unless that which it was intended to import in its stead were of greater value."⁵ It is, accordingly, import trade which should have principal attention,⁶ and it is matter of congratulation if imports exceed exports.⁷ The present financial strength of Germany is shown

¹ *Handelsbilanz*; *balance de commerce*.

² Respectively *gnädige Bilanz* and *balance favorable*, *Unterbilanz* and *b. défavorable*.

³ SAY, in his *Traité*, &c. (i. 4, 17.)

⁴ In his essay entitled *The Balance of Trade*.

⁵ *Commercial Dictionary*, p. 76.

⁶ Compare what has been said above as to the buyer making the better bargain; in international trade, relatively. The circumstances in which the two nations are placed are different; the advantage each such party derives by its exchange is in respect of what it obtains. As between nations this is a *commodity*, only the balance on the whole of their exchanges being a question of *money*.

⁷ See further the explanations afforded in text-books of economics as to the apparently inordinate excess of our imports over our exports (freights and interest on foreign investments repaid by imports).

by the fact that her import is largely in excess of her export trade.¹

§ 130. Little effect was produced by economic doctrine upon public policy² until Mr. Huskisson became President of the Board of Trade, and afterwards Chancellor of the Exchequer, in the next reign. He inaugurated Reciprocity Treaties, containing 'the most favoured nation' clause, so as to make engagements with other nations available for either of the contracting parties. Amongst other reforms of this enlightened minister was his abolition of bounties, and of the duties on Anglo-Irish trade which had survived the Union. Next in this connection came the adoption of a 'sliding scale' for corn duties (1828), which gave little satisfaction, and then the anti-corn-law agitation, conducted by Messrs. Cobden and Bright, which was crowned with success in the year 1846. From 1849 to 1869 there was a fixed duty on corn of 1s., but this was taken off in the last-named year. The Free Trade policy pursued by this country now for nearly fifty years, as already remarked, has resulted in prodigious increase to the national wealth.

§ 131. Some impression had been made upon Continental states by commercial treaties, such as the treaty with France in 1860, negotiated by Mr. Cobden with M. Chevalier, who was fully supported by the Emperor Napoleon III., when in the years following the Franco-German war a reaction set in towards Protectionism. This, however, is kept in check at the present time by the Commercial League of the central states of Europe. But France and Russia adhere to the exclusive policy.

Scarcely had the American colonies become independent of Great Britain than—such is the irony of events—the new

¹ As to drain of the country's money, however, see GOSCHEN, *Foreign Exchanges*, p. 82.

² Such as there was is due to the fact that Adam Smith found a disciple in the younger Pitt. Attention to the French wars, however, stopped the way.

Republic itself became protectionist, and is so still. Each tariff published represents a compromise between the interests that claim protection and cannot all be satisfied; in the meantime the American tax-payer has to suffer.¹ A like tendency shows itself in some of our Australian colonies, Victoria in particular. "Laws are passed," writes Jevons, "to make people richer by preventing them from using the abundant products of other lands."² The circumstances of a new country appeared to Mill to justify temporary protection, but this, as Laveleye says, "becomes permanent because the interests created by privilege combine, and oppose all reform."³

An 'Imperial Customs Union' has been proposed as a means of cementing the interests of people of the British race. On the one hand it may be said that, if this were brought about, the mother country would make Free Trade effective throughout the Queen's dominions; on the other, that only one-fourth of our import trade in food-stuffs and raw materials for our industries, and only one-third of our export trade, is with British possessions,⁴ so that the Government should be careful not to prejudice our trade with foreign countries. Again, against the protective tendencies of some colonies may be set the fact that, as is said, in the long run 'trade follows the flag.'

§ 132. A difference arises between taxes according as they are direct or indirect, that is, fall strictly on the person charged

¹ See WALKER, *First Lessons*, pp. 176 f.; BASTABLE, *Commerce of Nations*, pp. 79 ff.

² *Primer of Political Economy*, p. 10.—A writer in the *Westminster Review* has attributed Australian protectionism to a desire on the part of our colonists there to become independent. This, however, seems improbable. The example of Canada, where the same policy is in vogue, and yet promoted by the most loyal of colonists, is against the idea. Again, the people of New South Wales, who are free traders, do not seem to be more loyal than the Victorians.

³ *Elements of Political Economy*, ii. 6, 4.

⁴ According to statistics for the year 1891.

with them, as the land tax,¹ or on the importer or other intermediary in the first instance, but ultimately on the consumer. Taxes on commodities are indirect in their incidence.

§ 133. It remains that we should consider the national expenditure according as it is consumed productively and unproductively.

The State should at all times possess the means of maintaining order and justice, of creating and maintaining public works (such as roads and harbours), and in fostering education,² as the particular objects of its superintendence. Outlay of this kind is distinctly productive.

The charge upon the revenues occasioned by the British National Debt, which at present amounts to nearly £690,000,000, must always remind us of sacrifices made in the past, suggestive rather of waste than gain. The Revolutionary wars cost us 600 millions, the Crimean War 50 millions more. The *funded* debt is reduced by means of surplus income applied in the purchase and cancelling of stock, and by means of 'terminable annuities.' The *unfunded* debt is similarly reduced by a 'sinking fund.'³

¹ This is a form of rent.

² See *Wealth of Nations*, bk. iv. ch. 9.

³ See BITHELL, *s.vv.*, and for 'amortization' also below, under Bank of England and Stocks. (Pt. ii.) The German expression is *Tilgungscapital*; the French, *casse d'amortissement*.

LESSON XVI.

INSURANCE.

Insurance in General—Life, Fire, and Marine Insurance—Aids to Thrift.

§ 134. CONTINUING the study of subjects that fall under CONSUMPTION, we shall end the First Part of these Lessons by one upon **Insurance**.¹

“Insurance (or, Assurance) is a contract either to indemnify against a loss which may arise upon the happening of some event, or to pay on the happening of some event a sum of money to the person insured.”² Contracts of Fire and Marine Insurance are contracts of indemnity, that is, compensate the person insured for the loss he has actually suffered; that of Life Insurance, on the other hand, is an absolute undertaking to pay a sum of money in consideration of the ‘premium,’³ on the death of, or attaining a certain age of, the person insured.⁴

The three species of insurance just named are the most important. Amongst other applications of the principle are insurance against accidents to the person, cattle, or crops,

¹ *Versicherung* (*Ass:kuranz*); *assurance*.

² WILLIAMS, *Law of Personal Property*, p. 294.

³ *Prämie*; *prime*.

⁴ Formerly Life Insurance was thought to be a contract of indemnity, but later judicial authority has been decisive against that view. Hence the pecuniary value of the insurance, for example, of a house against fire for £1,000 and that of an insurance of the owner's life for the same amount may be very different.

against sickness,¹ guarantee of the fidelity of agents and clerks, insurance of employers against claims under the Employers' Liability Act,² mortgage (investment) insurance, and insurance against loss by insolvency of traders.

The instrument containing the contract is called a 'policy,'³ the various kinds of which will be described hereafter.

Contracts of insurance in general differ from other contracts in that *uberrima fides* is essential: that is, silence on any material matter concerning the insurance is considered as a fraud. The person insured is bound to disclose all material facts within his knowledge, even though no questions be asked him concerning those facts.

The insured must have an insurable (pecuniary) interest in the subject-matter of the insurance,⁴ proof of which must be given in case of a claim under the policy.⁵

Insurance Companies are (1) Proprietary, in which the shareholders alone divide the profits, or (2) Mutual, in which the shareholders are the policy holders, or (3) Mixed.

§ 135. *Life assurance*⁶ is a contract by which the insurer, in consideration of certain payments, either in a gross sum or by annual amounts, undertakes to pay to the person for whose benefit the insurance is made a certain sum of money or annuity, on the death of the person whose life is insured.

This is a topic of general interest, the incidents of which should be familiar to most adult readers. The 'proposal' for an insurance, the answers to inquiries made by the Company, the issue of a policy and the premium, affixed according to the

¹ As in Friendly Societies, etc.

² See § 41 above.

³ *Police* in F. and G.

⁴ What at Common Law was already the rule for Life and Fire Insurance was by an Act of 1733 extended to Marine Insurance.

⁵ An 'insurable interest' is such as that of a creditor in the life or his debtor, to the extent of his debt; of a warehouseman, in the goods entrusted to him.

⁶ *Lebensversicherung*; *assurance sur la vie*.

probable length of life of the assured party, come within the range of common knowledge. The advantages, if not duty, of making provision for others in view of one's death are manifest. Fortunes are not readily made in business at the present day; so that men engaged in it are not behind other people in availing themselves of the facilities offered by Insurance Societies.

§ 136. The various 'offices'¹ publish tables affording choice between several methods of insurance: as for the whole life, or for a limited number of years; 'with profits' or 'without profits'; on a particular life, or on survivorship as between joint lives;² and so on. At stated intervals, *ceteris paribus*, a 'bonus,' or sum accrued in augmentation of the reversionary value, will attach to policies 'with profits'; this may be appropriated to the reduction of succeeding premiums, or received by the 'insured' at its cash value, if not left with the Company by forbearance on the part of the insured.

Perhaps the most popular is the 'endowment' policy, as it combines investment with insurance. Thus, at the age of 25, by a first annual payment of £20, a policy can be had for £700, payable with profits to the insured himself at the age of 60, or if death intervene, to his representatives shortly after his decease.³ A man can secure an endowment in favour of his children, for their education, or in aid of starting them in life.

Death of the insured by sentence of law discharges the Company's liability. Until Life Insurance offices relaxed their restrictions, suicide was another ground of non-liability.

¹ For the Life Insurance business undertaken by the Post-office, consult the *Post-office Handbook*. The *Gresham* does a large continental as well as English business; whilst the *Prudential* meets the needs of the operative class in England, and seems to be a flourishing concern.

² 'Tontine' associations are an expansion of them. See BITHELL, *s.v.*

³ Life Insurance of this kind has been developed chiefly in the United States, where pensions are seldom granted. The largest life-business of any Insurance Office seems to be done by the New York *Equitable*.

A policy of life insurance may be assigned by a memorandum in writing endorsed thereon, notice of which should be given to the Company.

By usage, a life policy may be *surrendered* after the payment of premiums for at least three years; the amount allowed to the insured is, however, only about one-third of that which has been paid by him.

§ 137. The experts who make the calculations upon which life insurance tables are based are called 'actuaries.'¹ Such insurance involves special skill in the calculation of probabilities.²

The investments held by life offices are of great moment to those who insure in them in reliance upon their solidity. Endeavours are of course made by the directors to obtain the highest rate of interest consistent with safety. Mortgages of freehold or leasehold property, rent-charges, reversionary interests, public rates, railway debentures, besides government stocks, are the securities most regarded.

§ 138. Life insurance dates only from the reign of William III. The oldest case given in the Law Reports was tried before Lord Holt, two years after the foundation of the Bank of England, and one year after the Hand in Hand life office was started.

§ 139. *Fire* insurance³ provides an indemnity against losses occasioned by fire, explosion, or lightning. The need of it seems to have been one of the lessons taught by the Great Fire of London. (1666.) But it is still little practised out of England, where a larger number of people than in other lands live in towns.

¹ *Registratoren; calculateurs.* In England the 'Institute of Actuaries' exercises supervision over their duties, and holds examinations qualifying for the position.

² Exercises of this kind are worked by the highest form in the Antwerp school.

³ *Feuerversicherung; assurance contre l'incendie.*

It is essential that the description given of the property in the policy should be accurate.

A policy of fire insurance may be assigned with the consent of the office. The benefit of the insurance will not, as the saying is, 'run with the property,' but the Company must be privy to it.

§ 140. *Marine* insurance¹ is a contract whereby a vessel, cargo, or freight² is insured against loss by persons called 'underwriters (U/W.),'³ which word simply means that they sign their names at the foot of the policy. This branch of insurance, early practised by Italians, Spaniards and Hansards, by the last of whom it was introduced into England, has been developed in this country by an institution which some twenty years ago received a charter as the 'Corporation of Lloyd's.'⁴

The risk is generally divided between several underwriters or even two companies, one reinsuring with the other.

§ 141. The following are the chief different kinds of policies in use. 1. An *open* policy, in which the value of the subject matter is not stated in the policy, but is left to be ascertained by the agent in case of loss. 2. A *valued* policy is where the value of the subject-matter is stated. 3. A *time* policy is where the policy is for a certain time. 4. A *voyage* policy is where the policy is for a certain voyage.⁵ 5. A *mixed* policy is a combination of Nos. 3 and 4.

Amongst *express* warranties we may notice that to sail on a given day, and that the vessel is safe at a given time. It is *implied* by the policy that the vessel must not deviate unneces-

¹ *Seversicherung (Assekuranz); assurance maritime.*

² Money lent on bottomry (§ 70), or profits anticipated from the adventure, may be insured in like manner.

³ *Assekuradeurs; assureurs.*

⁴ Lloyd's has rendered great service to Shipping by the classification of ships upon its Register (A1, &c.), and the information circulated by means of its agencies.

⁵ A 'wager policy' is one in which the insurer has no interest in the subject-matter insured. It is of course illegal. (*Supra*).

sarily from her proper course, and if she is lost after having deviated, but returned to the right course, the underwriters will not be liable. Another implied warranty is that reasonable care shall be taken to avoid risks.

Every policy is construed according to the *lex loci contractus*.

§ 142. Lloyd's form of valued policy shall now be given in *extenso*.¹

Be it known that²

as well in

own name, as for and in the name and names of all and every other person or persons to whom the same doth, may, or shall appertain, in part or in all,³ doth make assurance and cause and them and every of them, to be insured lost or not lost, at and from

S.G.⁴

£

upon any kind of goods and merchandise, and also upon the Body, Tackle, Apparel, Ordnance, Munition, Artillery, Boat and other furniture, of and in the good Ship or Vessel called the whereof is Master, under God for this present Voyage, or whosoever else shall go for Master in the said ship, or by whatsoever other name or names the same ship, or the Master thereof, is or shall be named or called, beginning the adventure upon the said Goods and Merchandises from the loading thereof aboard the said ship upon the said ship, etc., and shall so continue and endure, during her abode there, upon the said ship, etc., and Goods and Merchandises whatsoever, shall be arrived at upon the said ship, etc., until she hath moored at Anchor Twenty-four Hours in good safety, and

¹ For Hamburg form, see *Modern Language Monthly*, vol. iii., No. 12, pp. 171 f., and the French equivalent in vol. iv., No. 1, pp. 17 ff.

² In the original form employed the words here used were represented by "In the name of God, Amen."

³ A policy of Marine Insurance is assignable like any other.

⁴ This would seem to stand for *Salutis gratia*.

upon the Goods and Merchandises until the same be there discharged and safely landed ; and it shall be lawful for the said ship, etc., in this Voyage to proceed and sail to and touch and stay at any Ports or Places whatsoever without prejudice to this insurance. The said ship, etc., Goods and Merchandises, etc., for so much as concerns the Assured, by agreement between the Assured and the Assurers in this Policy, are and shall be valued at

Touching the Adventures and Perils which we the Assurers are contented to bear and do take upon us in this Voyage, they are of the Seas, Men-of-War, Fire, Enemies, Pirates, Rovers, Thieves, Jettisons, Letters of Mart and Countermart, Surprisals, Takings at Sea, Arrests, Restraints and Detainments, of all Kings, Princes, and People of what Nation, Condition, or Quality soever. Barretry¹ of the Master and Mariners, and of all other Perils, Losses, and Misfortunes that have or shall come to the Hurt, Detriment, or Damage of the said Goods and Merchandises and Ship, etc., or any Part thereof ; and in case of any Loss or Misfortune, it shall be lawful to the Assured, their Factor, Servants, and Assigns to sue, labour, and travel for, in, and about the Defence, Safeguard, and Recovery of the said Goods and Merchandises and ship, etc., or any Part thereof, without Prejudice to this Insurance ; to the Charges whereof we, the Assurers, will contribute each one according to the Rate and Quantity of his sum herein assured. And it is agreed by us, the Insurers, that this Writing or Policy of Assurance shall be of as much Force and Effect as the surest Writing or Policy of Assurance heretofore made in Lombard Street or in the Royal Exchange, or elsewhere in London.

¹ This means any unlawful act committed by master or crew. Such a question may be raised in the case of *total loss*, as to which see in text below.

And so we the Assurers are contented, and do hereby promise and bind ourselves, each one for his own Part, our Heirs, Executors, and Goods to the Assured their Executors, Administrators, and Assigns, for the true Performance of the Premises, confessing ourselves paid the consideration due unto us for this Assurance by the Assured, at and after the rate of

IN WITNESS whereof, we the assured have subscribed our names and sums assured in (London)

190 .

N.B.—Corn, Fish, Salt, Flour, and Seed are warranted free from Average, unless general, or the ship be stranded; Sugar, Tobacco, Hemp, Flax, Hides, and Skins are warranted free from Average under Five Pounds per cent. ; and all other Goods, also the Ship and Freight, are warranted free from Average under Three Pounds per cent., unless general, or the Ship be stranded.

£ . Pounds.

Sig. (Underwriter).

£ . Pounds.

Sig. (Underwriter).

£ . Pounds.

Sig. (Underwriter).

(Valuation Clause.)

London 190 .

(Initials of Underwriter.) (Initials of Underwriter.)

(Initials of Underwriter.)

The reader should observe that the parts to be discriminated are (1) the name of the assured, (2) the name of the ship, (3) the description of the subject-matter insured, (4) the voyage, (5) the risks incurred by the underwriters, (6) the premium, (7) the 'memorandum' so called, (8) the signatures of the parties, (9) the amount of the insurance, stated in the margin.

Other conditions may be added, such as the 'running down

clause,' which indemnifies the assured against claims made in respect of any collision.¹

§ 143. A marine loss is either a *partial* loss or a *total* loss. The latter is (α) absolute or actual, *i.e.*, where the ship has foundered; (β) 'constructive,' where the vessel is abandoned under pressure of necessity.

§ 144. 'Salvage'² is the sum payable for the rescue of a ship or cargo, upon each of which the rescuers have a lien.³ It falls under the head of quasi-contracts.

§ 145. By 'Average'⁴ is primarily meant damage at sea, and then the liability arising from such damage. It is of two kinds. 1. 'General average,' which is a contribution by all interested in the vessel and the cargo to repay the owner of the goods or vessel when part of them has been *jettisoned* (thrown overboard) to save the vessel. It must be voluntary, not accidental. 2. 'Particular average,' a contribution to which the underwriters, and of course as a rule they alone, are liable for partial loss of or damage to property, besides casualties against which the assured is protected by the policy.⁵ The difference between the depreciated value and what would have been their full market value is estimated, and the proportionate share of each person liable ascertained, by valuers called 'average staters.'⁶

§ 146. The captain of a vessel which has met with any disaster at sea should, upon entering the first port afterwards,

¹ The routine observed in procuring a policy of marine insurance will be described in Part ii.

² *Bergung*; *sawvotage*.

³ It must not be supposed to extend to the saving of life.

⁴ *Havarie* (*Haferet*); *avarie* (generally in plural). As to the history of these words, see BITHELL under "Average."

⁵ Note the abbreviations 'f. a. a.' and 'f. p. a.' used for 'free of all average' and 'free of particular average' respectively. Grain, hides, and oranges are generally insured 'f. p. a.' (PEARCE, *The Merchant's Clerk*, pp. 94 f.)

⁶ *Dispatcheurs*, in F. and G.

make within twenty-four hours a declaration upon oath as to the circumstances before a notary, or if abroad, the consul. This is called a 'protest.'¹ The reader is referred for the form employed to Bithell's *Dictionary*.

§ 147. The 'aids to thrift' afforded by the Savings Bank department of the Post-office, of which a simple system of insurance forms part, call for further notice in this connection. In particular it should be observed, upon reference to the *Post-office Handbook*, that "at any Post-office Savings Bank deposits are received of any sum not less than a shilling or more than £50 in one year, ending the 31st December, or £200 in all, inclusive of interest," and that "when the deposit reaches a pound, interest at the rate of sixpence a year, or a halfpenny a month on each pound deposited is given, being at the rate of £2 10s. per cent. per annum."²

It would moreover be found that "Immediate Annuities or Old Age Pay (Deferred Annuities) can be bought at any Post-office Savings Bank provided that the person on whose life the annuity is to depend is not less than five years of age." Amongst the examples supplied it is stated that "an Immediate Annuity of £1 can be purchased for a child of the male sex aged five years for £25 19s."; and that "a male aged twenty-four may purchase Old Age Pay of £1 a year, to commence on his reaching the age of fifty-four, and to be payable half-yearly, either by an annual payment until he reaches the age of fifty-four of 4s. 4d. (1d. a week), or by an immediate payment of £3 19s. 10d."

Prominent amongst the advantages of this system is the fact that "annuitants and insurants have *direct government security* for the payment of the money at the proper time."

¹ This sense of the word must be kept distinct from that which it bears in respect of bills and notes. (§ 88.) The German is *Verklärung*; the French, *rapport de mer*.

² The deposits in the country's Savings Banks were a few years back estimated at £114,000,000.

PART II.

LESSON XVII.

INTRODUCTION TO THE STUDY OF COMMODITIES; AGRICULTURE.

Method of study of Commodities—Conditions of success in Agriculture—
History of British Agriculture—Wheat—Tea.

§ 148. GOING back to the consideration of industry in the stricter sense, upon which we entered in the Third Lesson, it is proposed now to examine with greater particularity the different forms of economic labour concerned with PRODUCTION, and to connect with these the **Study of Commodities**,¹ in preparation for further lessons on Trade.²

In classifying articles of commerce, their physical qualities of course give rise to the primary division, whilst sub-divisions obtain for raw materials and manufactured wares. In practical business only the respective trades or industries are regarded. Commodities had best be grouped under agricultural, mining, and manufacturing industries; under materials of clothing, food-stuffs, &c.

§ 149. A person specially interested in mineral produce will give his attention mainly to ores, salts, and fuel. Metallic

¹ *Warenkunde ; études des marchandises.*

² There is much to be done in this respect for elementary commercial education. A University examiner, in his report for the year 1889, stated that only one of the candidates whose work he had seen appeared to know of the difference between tin-plate and block-tin.

industries will lead to study of gold and silver, iron and hardware ; chemical, to drugs, dyes, oils, and fatty substances. Food-stuffs will comprise cereals, colonial produce, fruits, wine and spirits. Textile and allied industries bring before us products of spinning and weaving ; tissues and carpets, the processes of dyeing and printing. With leather we should associate furs and gutta-percha. The building industries require knowledge of timber and wood-carving. Earthenware will claim some attention from those concerned with study of glass ; the study of paper will embrace that of the manufacture of cheap collars ; whilst investigation of the construction of locomotives will not be far removed from that of the making of scientific or musical apparatus.

The *origin* of some articles, as coffee, is of special importance ; the *colour* of others, as tea ; and if almonds are judged of by their *taste*, cotton will be regarded according to its *quality*.¹

We shall select some half-dozen commodities which enter largely into British trade, and treat these with reference to the various aspects in which we conceive commercial products in general should be studied.

§ 150. **Agriculture** takes naturally the first place among industries, as being essential to the existence of every other.² "Nothing," wrote Cicero of old, "is superior to agriculture, nothing more fruitful, nothing more agreeable, nothing worthier of a freeman."³ Sully, the French statesman, declared tillage and pasturage to be "the two breasts of the State." The latter of course suits those countries best which are thinly populated, as Australia or the Argentine.

¹ This study is allied chiefly to that of Chemistry, and can only be pursued fully in institutions provided with laboratories and museums. As things are in England, manipulation is out of the question until pupils have entered upon 'continuation study.' Little can perhaps previously be done beyond imparting the range of knowledge conveyed by Manuals auxiliary to object lessons. Sound theoretical knowledge, nevertheless, should be gained at school of the leading articles of British commerce.

² LAVELEYE, ii., § 92.

³ *De Off.* i. 42.

The adaptation of any country for agriculture is of course governed to some extent by its geological formation, but climatic influences, wind and rainfall, also determine vegetable production.¹ The old world would be found to have supplied all the vegetables but seven, which are the New Zealand spinach and the American potato, sweet potato, pumpkin, squash, red pepper, and tomato.²

§ 151. Amongst the advantages possessed by *large* over small farming is the fact that the former makes the use of more perfect machinery desirable, whilst there is less waste of ground taken up by roads, hedges, &c. But division of labour,³ for which there is so much scope in manufacturing, obtains but very little in agricultural pursuits: the same labourers perform the distinct processes at different times.

The advantages of *small* farming are in most countries preponderant if the ownership is annexed to the cultivation. Such is the case in France, where some 5,000,000 of peasant proprietors own no more than ten acres of land apiece.⁴ England stands alone in exhibiting a system of large farming more productive than farming on a small scale, chiefly to be explained by the elaborate processes employed in this country, where agriculture is brought to perfection. In whatever country they are carried on, pursuits such as dairy farming and the rearing of poultry or bees, from the constant attention required, are reserved for the small farmer.

§ 152. The point has now been reached when a sketch of the history of this as a British industry may be fitly introduced.

Agriculture seems to have been practised in this island as

¹ Human art, as irrigation, may do something to modify natural conditions. When this is wanting, as in recent years in the famine districts of Russia, the struggle may be terrible.

² According to Professor GOODALE, in *Proceedings of the American Association for the Study of Economic Botany*.

³ See § 12 above.

⁴ *Infra*.

early as the fourth century B.C. The Romans, during their occupation, taught the Britons improved methods, and Britain became the chief source of supply of corn for neighbouring countries on the Continent.

The German tribes which came over in the fifth century after Christ had been accustomed to tillage and the rearing of stock. From preference, they settled on the lands under cultivation rather than in the cities, and brought with them some customs of the *Mark*¹ system, common to the first Teutonic tribes. These lived in distinct communities, separated from each other by the 'mark,' or boundary, which was a forest, or fen. The land in each 'township' was divided into three parts: (1.) The waste, reclaimed from the forest and serving for inferior pasturage. (2.) The pasture land, upon which the sheep and cattle of the village grazed in common. (3) The arable land, which was subject to an annual re-allotment, and was cultivated according to the three-field system, one portion being sown for wheat, another for oats or barley, and a third was left fallow, in succession. The monks concerned themselves with the development of agriculture during this period.

The cultivation of the soil devolved upon the 'theows,'² who constituted the majority of the people. By the time of the Conquest, three-fourths of the population seem to have been engaged in agriculture. The communities above described then became 'manors,' of which, according to *Domesday*, one-fifth was pasture, and another fifth was arable land. In each manor, besides the lord and a certain number of freemen,³ there were villeins and cottars,⁴ who were bound to the soil.

¹ 'Mark' is the same word as *march* in 'Welsh marches.' It is still used in Prussia of the sandy, flat country surrounding Berlin, called the 'Brandenburg mark.'

² Or serfs. See § 13 above.

³ Soc-men. They were not bound to the soil.

⁴ At the time of the *Domesday* Survey there were slaves also, but these soon merged in the class of cottars, who were practically serfs.

The villeins held portions of land in consideration of labour-services rendered to the lord; cottars held just so much as was appurtenant to their huts, and rendered proportionately less service. It was from these last, besides the poorer villeins, that the wage-earning class was gradually formed during three centuries following the Conquest, the lords having to employ hired labour when they commuted the services of villeins for money-payments. By the time of the Black Death most of the peasants had acquired freedom. The inability of the magnates from that time to cope with the claim made for higher wages, and to revive servile labour, led them to lease their lands;¹ hence arose the class of *tenant-farmers*. Those landlords who did not grant such leases committed the management of their land to bailiffs, and, from corn growing having become unprofitable, turned their arable land into pasture for the production of wool, which had always been very remunerative,² especially as less labour was required for it than for tillage. The effect of this was that many agricultural labourers had to migrate to the towns, and the efforts of legislators to prevent this were ineffective. To such an extent did sheep-farming come to the front that we find statutes of Richard II.'s reign passed in promotion of the export of corn, with the view of reviving tillage. The enclosure of common lands, induced by the prevailing tendency which bore hardly on the peasants, was the cause of the rebellion under Ket in the reign of Edward VI.

§ 153. In the reign of Elizabeth agriculture shared with other industries the benefit of the improvements introduced by refugees, who, amongst other things, taught the English the cultivation of artificial grasses and of winter roots, for which the fallow land was soon turned to account. Manuring became better understood in the seventeenth century, and in the eighteenth the fourfold rotation of crops was introduced,

¹ This had already been done by ecclesiastical landlords.

² The Cistercian monks had done much to develop sheep farming.

first in Norfolk. But from about the year 1770, as other industries advanced by strides, England ceased to be an agricultural country. Moreover, before that date the class of yeomen had almost disappeared, through the absorption of their lands into large estates, which followed the passing of the Statute of Frauds already mentioned, whereby, amongst other things,¹ it was provided that interests in land should be supported by certain documentary evidence, such as few of these possessed. The Small Holdings Act of 1892 may do something towards reviving the class of small proprietors. But, as already stated, it has so far been little appreciated.

We shall return to the history of this subject after first saying something about grain in particular.

§ 154. *Wheat*,² which is the staple British crop, is grown in most parts of the Temperate zones;³ hence in warm and not too moist climates. Of special sorts, there are the English soft wheat with podded grains, in two varieties, spring and winter (bearded) wheat, and the hard wheat cultivated in the south-east of Europe, and thus called Danubian or Astrakhan wheat, which has glassy ears and grains. The value of any wheat is determined by the thickness of the ears, the way in which it has been winnowed, and the weight of the grains.

The chief Continental sources of our supply, *i.e.*, of about 70 per cent. of that required for British consumption,⁴ are South Russia (Odessa), Roumania, and Servia (Galatz, &c.), Austria, Hungary (Trieste, Fiume), Silesia, Pomerania, and Poland (Stettin, Dantzic). We generally draw a large amount from North America (the Western States and Manitoba). The American is carefully graded by the managers of 'elevators,' or warehouses at receiving centres (Duluth, &c.). A considerable amount reaches us from the Pacific 'grain

¹ See § 18 above.

² *Weizen* ; *froment* (*blé*).

³ Forty years ago the *home-grown* wheat was 70 per cent. of the whole.

ports,' especially San Francisco and Portland (in Oregon). Chilian wheat, from Concepcion, &c., now competes with German on our markets. Australia and India also render service. The principal British receiving ports are London, Liverpool, Bristol, Hull, Cardiff, Leith, and Glasgow.¹

§ 155. Corn,² as has been said, was largely cultivated already in Roman Britain, but down to the last century the yield per acre was very limited in comparison with what it has been under modern methods of agriculture. In the time of Henry III. from four to eight bushels per acre were produced ; in the fifteenth century this had become thirteen ; in the reign of George II. it became thirty. But wheaten bread has for many centuries constituted the chief food of English farm labourers,³ whereas their fellows in other countries have still to be satisfied with poorer bread, such as that, for example, made from rye in Germany.

Corn laws were from time to time passed for the protection of this industry, and in 1688 the practice was commenced⁴ of granting a bounty on the exportation of corn. In 1815, when the inflated profits of English agriculture seemed likely to come to an end, it was enacted that no corn should be imported into the country when the price should be under 80s. a quarter. The duty was fixed, by an Act of 1828, according to a sliding scale, being proportionately less as the price went up. We have already spoken of the repeal of all these laws, more than fifty years ago.⁵

English farming has benefited much during the present century from the improvements in agricultural implements. It would seem, however, that not enough capital is usually

¹ For a market report, see below under 'Sale.'

² This in England means *wheat*. In some other countries it means different grain ; thus, in the United States *maize* is understood by this word.

³ Barley bread, however, was not uncommon fare in some parts of the country.

⁴ It was at first 5s. per quarter.

⁵ Sect. 130.

employed in the business, which cannot be satisfactorily conducted with much less than £10 to each acre.

The foreign competition with which British growers have had to cope, through the country's acceptance of Free Trade, has materially reduced the area under cultivation for wheat in particular; this, in the fifteen years from 1874 to 1889, fell about one million acres. It has also of course told upon the price of home wheat; 50s. per quarter, which it reached after the season of 1879, is about its high-water mark. By the year 1886 it had fallen to 30s.; and after in 1891 recovering to an average price of 39s., through failure of European harvests, it again receded to about the figure previously last named.¹

The area taken up by grazing in Great Britain is more than twice that of corn crops. The number of persons now engaged in both branches is only about one-fourth of that devoted to manufacturing industry. The interests of each are watched by the Associated Chambers of Agriculture, whilst Government supervision is exercised by the Board of Agriculture.

§ 156. The Money Market is affected by wheat, which influences the rate of discount and the foreign exchanges;² and there is a sympathy noticeable between the price of wheat and that of silver. There has for some time been brisk competition between growers in India and those at home, from the fact that the former, by reason of the low price of silver now prevailing, receive more for each measure of wheat, which is a sore grievance to our agriculturists.³

§ 157. *Teu*⁴ is the leaves rolled and dried of the tea-shrub, native to China, Tonquin, and Thibet. It was early introduced into Japan, and has for a considerable time been largely cultivated in Java, and during the present century in British

¹ The year 1896 marked another revival.

² See later lessons.

³ See § 107 below. A market report will be reproduced under 'Sale.'

⁴ *Thee*; *thé*.—The Chinese word is *tscha*, closely followed in the Portuguese *chá*. From a rhyme of the poet Pope it appears that 'tea' was formerly pronounced as its G. and F. equivalent.

India, especially in Assam, and in Ceylon;¹ to a small extent also in Natal and Fiji. It is grown on hill-sides, the land being manured, and it requires good sunlight. Both black and green tea are obtained from the same plant, the difference only being in the manipulation. For *black* tea the leaves are dried in heated pans, which are well-shaken, or are exposed to the sun in heaps upon mats, and tossed about until soft, then being dried over charcoal fires. *Green* tea consists of the stronger leaves, which are merely softened by steam, rolled and dried between the hands, and often dyed with indigo, &c.

Tea is packed in painted chests, tin cases, or leaden leaf-wrappers enclosed in paper. The trade is held almost entirely by the English and Dutch, the latter importing Java sorts at Rotterdam and Amsterdam. London is the great tea market of the world.

This favourite English beverage was first known in England in the time of Charles II., when it was introduced by the Dutch. Tea became a valuable monopoly in the hands of the East India Company.

¹ During the last few years preference has been given in England to tea received from British growers.—A market report will appear under 'Sale.'

LESSON XVIII.

EXTRACTIVE AND MANUFACTURING INDUSTRIES.

Fishing—Mining : Coal and Iron—History of British Mining—
Iron Industries—Cotton.

§ 158. WE have next to consider what are called by French writers ‘extractive’ industries.

Fishing¹ is a pursuit of historical importance, as having been the nursery of the world’s best sailors in the merchant and naval marine. Again, the shifting of herrings southwards to the coast of the Netherlands had a great influence upon the commercial development of that country.

Our domestic fisheries give employment to some 125,000 men, chiefly on the eastern and southern coasts of Great Britain, and find good outlet for export to the mainland of Europe. Those off the west coast of Ireland admit of considerable development, to which some attention has been given of late years.

§ 159. **Mining**² depends characteristically on geological conditions. Besides the service it renders with regard to the precious metals, it acquires vast importance from supplying iron and coal ; the one needed as the material of machinery, the other as giving power. The prosperity of a country, said Sir Robert Peel, will be determined by its command of these commodities. Great Britain and the United States alike stand

¹ *Fischerei ; pêche.*

² *Bergbau ; exploitation des Mines.*

out in this respect, the former being specially favoured by the proximity of her coal and iron to her seaports.¹ Germany owes some of her prosperity to the possession of both, and Belgium yet more.

§ 160. *Coal*² is the chief combustible. It is vegetable matter which has decomposed in the course of ages, deposited generally between sandstone, &c., and lower clay. It is usually black, but sometimes brown (lignite).

Coal is found on every continent, and in North America most extensively, but Great Britain has the largest output. British coal is (1) bituminous, in the varieties (a) household coal ('cherry,' 'soft' and 'slate,' hard) and (β) gas coal;³ (2) steam coal, used for machinery in factories or ships; (3) anthracite, the hardest kind, which is found in Wales, and is used for metallurgical processes.

The 'keel' and 'chaldron' are special measures employed for coal.

About 300,000 men are employed in Great Britain in raising coal, which is one-half of all so engaged in Europe.

The first mention of this as a British industry is in the time of Henry III. Encouragement was given to the production round about Newcastle by Edward III. When the smelting of iron by charcoal was given up in the last century in favour of coal or coke, its usefulness was greatly increased, and the employment of machinery in manufactures gave further impetus to the production.

§ 161. *Iron*⁵ is the most useful of metals. In its crude state it is white and lustrous, but it is very rarely found otherwise than combined with oxygen, carbon, phosphorus, &c.,

¹ Not merely to the conjunction of coal and iron, which does not obtain in France.

² *Steinkohle*; *houille*.

³ In Scotland called 'cannel' or 'parrot' coal, from the poor using chips of it for candles, and from the crackling sound it makes when put on a fire.

⁴ And largely in North America. ⁵ *Eisen*; *fer*.

and some ore is only of value for the sulphur it contains. The chief ores are those combined with oxygen only: 'magnetic iron ore' (Sweden and the United States), red or brown 'haematite' (peroxide of iron), and 'sparry ore' (protoxide of iron, in Germany, &c.), and 'clayband' (carbonate of iron).

Oxygen is separated from iron by charcoal or coke being mixed with the latter and set on fire. Most of the ores, however, from which British iron is extracted contain clay or sand, which are in like manner separated by roasting. Limestone or quicklime is then added to the fuel, and the ore is *smelted*: the iron, free of the slag, is then drawn off. In its molten state it collects in the crucible, at the bottom of the furnace, and this is called 'pig iron,'¹ which, as being used for casting, is also known as 'cast iron.'² The approved process is that of Neilson, introduced in the reign of George IV. The iron thus far remains impure, containing carbon and sulphur, besides phosphorus, which makes it brittle. Its further treatment we shall describe in a section below.

§ 162. The output of British mines in 1891 was 197½ millions of tons, of which 185½ millions were put down to coal. The number of persons engaged in these industries was 1,336,328. In the year 1890 the United States took the place of Great Britain as the country producing the largest amount of raw iron, the figures being 9,200,000 tons and 7,900,000 respectively.

British mining has a long, although uneventful, history. The tin mines of Cornwall were known to Phœnician and Greek traders centuries before Christ, and were worked by the Romans during their occupation of the island.³ Iron, as

¹ *Roheisen*; *fonte en saumon*.

² *Gusseisen*; *fonte*.

³ Caesar says: '*Nascitur ibi plumbum album in mediterraneis regionibus: in maritimis [the Weald of Kent] ferrum, sed ejus exigua est copia; aere utuntur importato.*' (*Bell. Gall.* v. 12. 5.)

may be seen from the note below, was also already worked in Sussex and Kent before the Roman occupation, and continued to be down to the last century, being discontinued when coal became used for smelting, and the Staffordshire iron mines, contiguous to supplies of that mineral, became productive. The Romans also extracted iron from the ores in the Forest of Dean.

Legislation of the present reign has imposed limitations upon work in mines. Lord Ashley's Mines Regulation Act of 1842 prohibited the employment underground of women, and of boys under ten years of age; whilst the Coal and Iron Mines Act of 1850 and the recently passed Mines Regulation Bill are directed to the health and safety of miners. There is a disposition on the part of some miners for Government regulation of the hours of labour, but an Eight Hours' Bill, submitted by a private member, has lately been rejected by the House of Commons.¹

§ 163. We pass on to **manufacturing** industry,² which works up the various raw materials according to the requirements of consumers. This embraces a very large number of occupations of men: we can but glance at those in the forefront of British energy, continuing, in the first place, the notice of Iron.

Cast iron may be converted into 'wrought iron'³ in either of two ways: (α) it may be melted, and air blown into it in the molten state, so as to oxidise and remove the phosphorus, &c., a process which is called 'puddling';⁴ (β) it may be

¹ In accordance with the views of the Northumberland and Durham miners, who prefer that the question of hours should be settled between employers and employed.

² *Fabrikindustrie*; *industrie manufacturière*. As to the inexactness of the distinction made between agricultural and manufacturing pursuits, see MILL, *Political Economy*, i. 2, § 9.

³ *Schmiedeeisen*; *fer forgé*. Bar iron is *Stabeisen* and *fer en barres*.

⁴ The invention of Corts in the year 1783, which, as Mr. Scott Moncrieff says, was "the foundation of the iron industries of the world." (*Great Industries of Great Britain*, i. 187.)

mixed with purer ores and heated to a high temperature, so that the carbon, phosphorus, &c., are oxidised by the oxygen of the ores, which is called 'cementation.'

*Steel*¹ contains about 1 per cent. of carbon more than wrought iron, and is made from it by heating wrought iron with charcoal or iron containing carbon; or cast iron may be melted in what is called a 'converter,' and after it has been oxidised, by currents of air forced into the mass, more cast iron is added, which is the Bessemer process.²

The United States and Germany now compete with this country in the manufacture of steel; the German supply has increased tenfold since 1871.

Cast iron is used for fire-grates, gas and water pipes, pots and pans, and the heavier parts of steam-engines; wrought iron for chains, wire, locks and keys, connecting rods, &c., of steam-engines, armour-plates of war-ships, &c.; steel for cutlery and edge-tools, rails, artillery guns, wheel-tires and axles, &c. Each may be used for bridges.

Tin-plate, in the form of kettles, teapots, &c., is made from sheet iron, with a coating of tin.

§ 164. We find mention already in Chaucer of 'Sheffield whittles,' the pocket-knives of that day. In *Leland's Itinerary*, which was written in the reign of Henry VIII., mention is made of Birmingham as a seat of smiths and cutlery. It (Burke's 'toy-shop of Europe') has of course been for a considerable time the metropolis of iron, and of hardware in particular, and affords the best possible illustration of the advantages of division of labour.

Comparison should be made by the reader between the mineral resources of this country and of others such as Germany, France, and Russia.

Forty years ago the discovery of gold in Australia caused much excitement in the old country. Discoveries in New South Wales of coal and iron in large quantities caused sensation

¹ *Stahl*; *acier*.

² REMSEN, *Elements of Chemistry*, pp. 204 f.

only two years ago among "the enthusiastic colonists, who talk of making their own iron or steel; but high wages, lack of skill, dear money, and many other causes will probably long postpone that event."¹

§ 165. By the *textile* industries² are meant those concerned with the manufacture of woven material: cottons, woollens, linen, silk, &c. Such began to be considerable in England when the improvements in machinery led to the factory system, which virtually put an end to 'domestic' manufactures of this kind, after their transference from the south to the north of England in the first half of the last century. We shall call attention specially to the industries of Lancashire and Yorkshire, the first of which groups affords a striking illustration of the international division of labour.

*Cotton*³ is the most important of materials that can be spun. It is the down covering the seeds of several kinds of plants akin to the common mallow. When the plant sheds its flower, a pod is left behind from which the down issues when the pod bursts on ripening. Until then great care has to be taken to protect it from the ravages of caterpillars; it is also liable to damage from frost or north-east winds. The reports from the plantations during the growing season agitate the market.⁴ The seeds are separated from the down by a machine called a 'cotton-gin,'⁵ and the cotton is packed closely in bales for export.

¹ *Scottish Leader*, 27th Feb., 1890.

² *Textilindustrie; industrie textile.*

³ *Baumwolle; coton.* The Arabic word, from which ours is derived, is *kaltun*.

⁴ For example, as to rainfall, minimum and maximum temperature in various districts.

⁵ "The introduction [by Whitney, of Massachusetts, in 1793] of the saw-gin gave an immense impetus to the cultivation of short stapled cotton" (*Great Industries of Great Britain*, iii. 262), and from that time American cotton superseded that from the Levant, and Liverpool outstripped Bristol as an English port.

The plant needs a warm climate, and is grown in almost all tropical countries, chiefly in North America, Egypt, India,¹ and Brazil; the ports from which the cotton is sent being the 'gulf ports' (New Orleans and Galveston), New York, Alexandria, Bombay, and Bahia. The descriptions depend first on colour, origin, and modes of cultivation; then on length of the fibre, its fineness, elasticity, regularity, strength, and softness. In trade it is graded according to quality and origin. At Liverpool American cotton is classified as 'good ordinary,' 'low middling,' 'middling,' 'good middling,' 'middling fair.' The *sea-island* (from the coast of Georgia and South Carolina) is the longest, finest, and dearest. 'Upland' is that from the mainland of Georgia; 'Orleans' from Louisiana, Arkansas, Mississippi, Missouri, and Texas. Seventy-five per cent. of the Liverpool supplies are from the United States. The Brazilian is grown in Pernambuco; Egyptian is a superior quality; Indian is shorter and not so well worked up, but much used as being cheap. Of the cotton last mentioned the best is Surat.²

§ 166. The first industrial process applied to the raw cotton when it has passed out of the hands of the dealer is the *spinning*.³ It is spun into 'yarn' (twist)⁴ at the mills; that is, the fibres are twisted into threads. From having become matted by close packing, the cotton has to be combed, which is done in the 'carding machine,' and then straightened in the 'drawing-frame.' It is spun in a 'throstle' or 'mule,' the pins contained by the movable frames of which are called 'spindles.'

The yarn is purchased by dealers, who sell it to those that undertake the process of *weaving*⁵ it into the cloth (calico) at factories. The chief feature of this is the crossing of the threads;

¹ Indian cotton is mentioned already by Herodotus.

² For some market reports, see under 'Sale.'

³ *Spinnen*; *filage (en fin)*.

⁴ *Baumwollengarn*; *fil de coton*.

⁵ *Weben*; *tissage*.

those which run lengthwise are called 'warp,' and the threads carried across them, under and above alternately, by a 'shuttle' are called 'weft' (woof). Weaving is effected upon a sort of frame called a 'loom.' Before the cloth is finished it undergoes the process of bleaching, printing, &c.

Besides calicoes, cotton goods made from New Orleans cotton comprise velvets and fustians; muslins and lace, besides sewing thread, are made from 'sea-island' cotton.

§ 167. The British cotton industry is first mentioned by a writer of Charles I.'s time. The town of Wigan was its nursery, but from its being here subject to the restrictions of a corporate town, labour was soon attracted to the neighbouring free town of Manchester, which remains to this day the 'metropolis of cotton.' The Customs Book of 1697 shows export of cotton goods. Down to the time of George II. the warp was of linen, and only the weft of cotton; and it may be that Lancashire became the seat of the cotton manufacture from the fact that the linen manufacture had long flourished in that part of England.¹

The first great improvement in appliances was the moving shuttle, invented by Kaye in 1738. For the same branch of the industry fifty years later Cartwright provided his power-loom, in which hands were not required to throw the shuttle, contemporaneously with the first use of the steam engine instead of water-power, in the Lancashire factories.

Meanwhile, Hargreaves invented his 'spinning-jenny,' for spinning weft; Arkwright, the spinning machine, in which cotton thread could be made strong enough to serve as warp, and rollers saved the labour of the fingers; and Crompton, the spinning mule, making a finer yarn. When Watt completed his improvements by adding a condenser to the steam engine, it was introduced into a spinning mill at Nottingham in 1785, and another at Manchester in 1789. Thus our industrial revolution roughly synchronizes with the outbreak of the

¹ CREIGHTON, *Social History of England*, p. 108.

French social revolution. Calicoes were by this time manufactured in Lancashire, and the cotton industry had been introduced into Ireland.

The development of this industry has continued ever since. It received a rude shock from the American Civil War. This led, however, not only to the Lancashire cotton famine, but to the prosperity of Bombay, as the outlet for 'Surats,' and rapid growth of Indian trade in general.¹ Continental competition now makes itself felt to some extent, but British supremacy seems well assured. England has more than half the spindles of the world. An English mill pays for itself in the same number of years as money will double itself at compound interest; twice as long is required by any mill on the Continent. The whole English system of spinning, sales, book-keeping, purchases, and correspondence is simpler and more economical than that of our rivals. The comparison will be not less satisfactory in respect to our looms—Oldham yarns and Manchester calicoes command the markets of the world.

¹ The last noticeable feature of this is the fact that by reason of the depreciation of silver, it has become profitable for India to ship manufactured cotton to England, as was done in the year 1892. Such things have accentuated the support given by some Lancashire manufacturers to agriculturists in their agitation in favour of Bimetallism. (See §§ 77, 156, above.)

LESSON XIX.

MANUFACTURING INDUSTRIES (continued).

Woollens—The Factory System and Factory Legislation—Exhibitions—
Technical Education—Patents and Trade Marks.

§ 168. The staple industry of Yorkshire next claims attention. In *wool*¹ the diverse circumstances of mediæval and modern industrial life find apt illustration. The English people used to content themselves with providing the raw product, which was sent to the Low Countries, to be received back as manufactured material. Then, as Professor Seeley says, England “was to Flanders what Australia is now to the West Riding. London was as Sydney; Ghent and Bruges were as Leeds and Bradford.”² For the causes of the transference of this industry from the south to the north of England in the course of the last century, the reader must refer to manuals of Industrial Geography and History.

§ 169. Wool is the hairy covering of different animals, but especially the fleece of a merino sheep, native to Spain, but transplanted to other parts of the world, as to this country.³ Alpaca is derived from a sheep native to Peru; Cashmere is from the Cashmere goat; Mohair from the camel. Wool has always been resorted to as a material of clothing, the reason of which is that when two of its fibres are brought close to each other their scales are locked together.

¹ *Wolle; laine.*

² *Expansion of England*, p. 85.

³ By George III.

The chief distinctions in varieties are those between long and short, hard and soft wool. By 'staple' is meant the fibre of the fleece and, at the same time, the length of the threads, so as to give rise to the expressions 'long staple' and 'short staple.' Sheep's wool is produced throughout Europe; but the best is from Germany. Australia supplies a good article through Melbourne, &c.; New Zealand and South Africa add their supplies. The fleece is first washed while still on the sheep's back; after being shorn, and then sorted by the 'stapler,' it is scoured to get out the grease.

As with cotton, some dealers ('staplers' and others) sell the raw material to the spinners¹; others the yarn² to the manufacturers. Wool undergoes processes quite similar to those applied with cotton as described above, the carding, twisting, and weaving, with dyeing and fulling. 'Worsted yarn'³ of Bradford now competes with French yarn from Roubaix.

Mixed woollen goods are of wool and silk (or cotton, linen). Mohair, as already stated, is from goats' hair; but this is mixed with sheep's wool. Woollen rags are torn up, re-spun and re-woven, to make 'shoddy.'⁴ To the woollen industry we owe hosiery, flannels, blankets, and carpets.

§ 170. Wool for centuries formed the chief source of the royal revenue in England, and made the kings traders. They had 'factors' on the Continent; thus Gresham was Queen Elizabeth's agent at Antwerp. The king's factor was 'Mayor of the staple.'

The English woollen manufacture goes back to the time when there was a Roman cloth-factory at Winchester.

For a long time only an inferior grade of manufacture was attempted in this country, although Flemings came over already in the reign of the Conqueror, and encouragement

¹ A market report will be given presently.

² *Wollengarn*; *fil de laine*.

³ *Kammgarn*; *fil de laine peignée*.

⁴ *Shoddywolle*; *effilochage*.

was given to this industry in Scotland by David II., in the twelfth century.¹ Later on a start was made in Ireland, but there the industry was checked by repressive legislation in the reign of Henry VIII.

The trade was for long held by the London Hansa; but when Misselden, in 1623, wrote of it as "the dowry of the kingdom," it had passed into the hands of the merchant adventurers. The 'Norwich period' had then been reached in the history of English woollen manufactures, refugees from the Netherlands, with their skilled labour, having in the previous reign reinforced the ranks of English workers, so that the requirements of this country were fully met at home. In the reign of Charles II. we find broadcloth dyed and dressed at Bradford—a landmark in the history of the Yorkshire industries. By the end of that century two-thirds of English exports were woollen goods.

In the reign of William III. many Irish artisans, suffering from the repressive legislation affecting that country, emigrated to Germany, and founded the manufacture of 'Saxony wools'; others to France, who established woollen manufactures at Abbeville and Amiens. This affords a melancholy comment on the trade policy of the period.

It was not until the last years of the eighteenth century that attention was given to the adaptation of Australia for the rearing of wool. We are now dependent on those colonies mainly for our supply of the raw material.

§ 171. It should be noted how in antiquity industrial labour was left to slaves; how in mediæval times and down to the period of the French Revolution it was hampered by restrictions, to which we adverted in an early Lesson;² that machinery was almost unknown; that, consequently, only manufacture on a small scale was attempted anywhere, and that according to

¹ MACPHERSON, *Annals of Commerce*, pp. 308, 323.

² Sect. 12.

crude processes. Not but that small has some advantages wanting to large production. Thus personal interest is here more operative, and it works for a known market, so as not to be liable to oft-recurring crises.

The Factory System introduced the state of things under which we live. Science, and social as well as political changes, co-operated in bringing this about.¹ Chief among the advantages afforded by manufacture on a large scale is the extensive application given by it to division of labour. The fixed outlay is relatively smaller; raw materials are cheaper, the larger the quantity bought. Expenditure being reduced in this way, the proprietor of such a business can better incur the cost of employing travellers and agents in view of finding a larger market. The use of machinery speaks for itself: one of its special advantages we may note is that it converts circulating into fixed capital.²

The following conditions must co-exist for a country's success in manufacturing industry: (α) a good political organization, (β) skill in management, (γ) facility of transport. All these are supremely effective in England.

§ 172. We have already in the First Part dealt with the Wages question; but may now add a few remarks as to legislation bearing on the health and morals of operatives, and on the hours of labour.

The Statute of Apprentices, already spoken of, which, to use the words of Professor Jevons, was "intended to prevent any person from entering a handicraft unless he were brought up to it when young," was construed by the Courts as applicable only to industries in existence at the time it was passed;³ so

¹ Cp. *French Reader*, § 9.

² As to the need, however, of keeping this in check, see MILL, *Principles of Political Economy*, iv. v. 2.

³ The laws of apprenticeship were repealed in 1809. But by Common Law a parent is still allowed to bind his child to a seven years' apprenticeship, the expedience of which is very doubtful. (*Wealth of Nations*, bk. 1, chap. x., part 2.)

that many which have sprung up during the last two centuries were scarcely subject to any legislative restraint. A series of statutes, however, known as the Factory Acts, commencing with Sir Robert Peel the elder's Health and Morals Act of 1802, and culminating in the Factory and Workshops consolidating Act of 1878,¹ have brought under complete State control all manufacturing industries carried on in factories and workshops alike. Sanitary provisions have been secured, and restrictions have been placed on the employment of women and children.² The education of the latter was provided for by Lord Althorp's Act of 1833, and more effectively since by the Education Acts. Mr. (Lord) Cross's Act of 1878 prohibits the employment of children in factories and workshops under the age of ten.

The hours of labour were separately dealt with in Lord Ashley's Ten Hours Bill, passed in 1844. By the Act of 1878 the working week in textile factories is limited to 56½ hours, in non-textile factories to 60 hours. The hours of labour formed a subject in 1890 of international discussion in the Labour Conference at Berlin. Many British workmen now advocate legislation limiting each day's work to *eight* hours: the Trades' Union Congress at Liverpool in the same year decided in favour of such an enactment.³

The labour of assistants in shops and warehouses is to some extent governed by the Shop Assistant Act, 1898,⁴ which

¹ Described by the late Professor Jevons as "one of the brightest achievements of legislation in this or any other country." (*The State in its relation to Labour*, p. 52.) Cp. the description of it given by the British delegates at the Berlin Conference: "A kind of treaty between employers and employed, concluded by the instrumentality of government." (See now the Act of 1895.)

² The first Factory Act, which was in part addressed to the interests of the young, only applied to apprentices, and Sir R. Peel's second Act, of 1819, was limited to the regulation of the age at which children could be admitted to cotton mills, and the hours of labour for such.

³ Cp. § 162 above.

⁴ It was the subject of an inquiry by a Select Committee of the House of Commons.

forbids the employment of persons under 18 in or about a shop for more than 74 hours in any one week. The distinction that had been made in this connection between manufacture and trade is to a large extent artificial. As Jevons says, "The making up of pounds of sugar and the packing of goods is clearly a manual operation, or sometimes a machine operation, identical with much that is done in factories. . . . The difficulty of the matter is clearly that of competition."¹

§ 173. Stimulus has been given to Industry by the various International Exhibitions, and by the growth of foreign competition, which has made the need felt of improved Technical Education. The State may aid by establishing Museums, Science and Art Schools, and the like. Such has already been done in this country. Moreover, under the Local Taxation (Excise and Customs) Act of 1890, County Councils are now enabled to foster this by the institution of continuation lectures, etc. Again, the 'Imperial Institute,' which was incorporated by Royal Charter in 1888, was designed to stimulate the foreign trade of the country. Amongst its objects is "the promotion of technical and commercial education, and of the industrial arts and sciences."

§ 173a. A special stimulus to invention exists in the system of *patents*, the right of granting which was reserved to the Crown by the Statute of Monopolies (1624), which, with this exception, abolished the Crown's right of granting monopolies.² A 'patent'³ is a grant from the Crown of the exclusive privilege of making, exercising, and vending some new invention. Such grants are called 'letters patent,' from being under the Great Seal. By the Patents Act of 1883, the period for which a patent is granted is fourteen years; but the time may be extended to twenty-one, and in some cases twenty-eight years, by an order in Council. The right may be assigned in writing, but the assignment must be registered in a book called the

¹ *Op. cit.* p. 81 f.

² See further § 197.

³ *Erfindungspatent*; *brevet d'invention*.

'register of patents' kept at the Patent Office, which is now a department of the Board of Trade.

§ 173*b*. A 'trade mark'¹ is a mark used by the manufacturer of goods to denote that the goods are manufactured by him. The law is also contained in the Patents Act, which established a register of trade marks. The person whose trade mark is registered has an exclusive right to the use of the trade mark, unless it can be shown that someone else has used a similar mark, and after five years his right becomes absolute. The above-mentioned Statute is supplemented by the Merchandise Marks Act of 1887, which prohibits the importation into this country of goods bearing the trade mark of a British manufacturer without indication of the country in which they were manufactured.² This enactment does but carry out policy initiated in the reign of Edward IV., when Parliament prohibited the importation of certain goods calculated to mislead.

§ 173*c*. It behoves producers, as well as traders, to consult the actual requirements of foreign customers in their effort to maintain the supremacy of Great Britain in the markets of the world, by opposing an effective resistance to foreign *competition*.³ Here may be seen the importance of being able to command a supply of efficient travellers,⁴ who should study the tastes of consumers on the spot. Consular reports now put emphasis on the need of this, and upon abandonment of the practice of merely sending price lists or specifications in the English language.

¹ *Fabrikzeichen (Schutzmarke); marque de fabrique.*

² It has not, however, been the custom of the authorities to apply this Act to goods in transit, so that foreign goods falsely marked have sometimes by transshipment found their way to British colonies.

³ See § 14 above. As to the trade rivals of Great Britain, see YEATS, *Golden Gates*, ch. xviii.

⁴ Sect. 39 above.

LESSON XX.

THE CONTRACT OF SALE.¹

Nature and incidents of Sale—Law of Sale—Value and Price—Markets, Fairs, Exchanges (History).

§ 174. RESUMING the study of EXCHANGE, we may now investigate more closely the nature of transactions which constitute the main part of a merchant's business. Those who select a commercial career have to set before themselves the art of buying and selling as a primary object. We shall, then, in this place examine the elements of the **Contract of Sale**.²

"Sale or exchange," writes Blackstone, "is a transmutation of property from one man to another, in consideration of some price or recompense in value, for there is no sale without a recompense; there must be *quid pro quo*. If it be a commutation of goods, it is more properly an exchange; but if it be a transferring of goods for money, it is called a *sale*, which is a method of exchange introduced for the convenience of mankind, by establishing an universal medium, which may be exchanged for all sorts of other property; whereas if goods were only to be exchanged for goods, by way of barter, it would be difficult to adjust the respective values, and the carriage would be intolerably cumbersome. All civilised nations adopted therefore very early the use of money."³

¹ *Précis Writing*, &c., ch. iv.

² Spoken of in Germany as *Kaufvertrag*, and in France as *contrat d'achat*, both strictly meaning 'contract of purchase.'

³ *Commentaries on the Laws of England* (ed. of 1775), vol. i. p. 446. Cp. §§ 42, 73, above.

As the classical jurist Paulus wrote: "In barter one cannot distinguish purchaser from vendor."¹ Professor Cunningham speaks of the man as *seller* who drives the better bargain, and as *buyer* him that has set his heart upon a particular thing.² This is of course true of transactions between a civilised trader on the one hand and an uncivilised trader on the other. Not only, however, may there be dealings in which neither element exists, or in which each party sets his heart on what the other possesses, but it must be remembered that precisely the same considerations govern barter as sale, which is fundamentally an exchange of commodities. Now, as it is buyers that 'settle value,'³ the man who makes the better bargain would rather be the purchaser.⁴ In fact, no one has improved upon the dictum of Paulus.⁵

§ 175. For a producer the formula of Roman Law was *Facio ut des*; for dealers, *Do ut des*.⁶ The classical jurists already discussed the question that sometimes arises whether a particular transaction is one of sale or of the hiring of services. For example: you agree with a goldsmith that he is to make you a ring out of his own gold. Most jurists regarded this as a contract of buying and selling; all were clear that if the craftsman is to use your gold, it is one of letting and hiring.⁷ Industry and retail trade are frequently combined, as by bakers, clothiers, saddlers, &c.

¹ *Dig.* xviii. 1, 1, § 1.

² *Growth of English Industry and Commerce*, 1st ed. p. 63.

³ DANSON, *Wealth of Households*, p. 65.

⁴ *Cp. Prov.* xx. 14. "It is naught, it is naught, saith the buyer: but when he is gone his way, then he boasteth."

⁵ We may here urge the advantage for all who can do so of comparing the English with the Roman Law of Sale. Judge Chalmers has said of the latter, in his treatise on the Sale of Goods, that "there is hardly a judgment of importance on the Law of Sale in which reference is not made to it."

⁶ *Dig.*, xix. 5, 5.

⁷ *Gai.*, iii. 147, or *Institutes of Justinian*, iii. 24, 4.—Difficult cases have been decided in English courts. See in particular that of *Lee v. Griffin*, discussed in BENJAMIN, *Law of Sale of Personal Property*, p. 99.

§ 176. It will be remembered that, by the Statute of Frauds, all contracts for goods of the price of over £10 are void unless (1) the goods or part of them be accepted and received, (2) the price or part of it be paid, (3) there be a note or memorandum in writing of the contract, signed by the party to be charged (*i.e.*, the defendant) or his agent.¹ The memorandum must contain the names of all the parties, the terms (consideration, &c.), subject-matter, and price, if this be agreed upon, but need not be in any particular form. The contract may be contained in several documents, such as letters, provided that the connection between such documents is apparent on the face of them. The contract may be made at any time before an action is brought in it, but not afterwards. It need not be signed by the plaintiff or his agent: the same person may sign as agent for both parties, but neither of the parties can sign for the other.

It satisfies the requirements of *acceptance* of the goods in whole or in part (as of sample) if the buyer exercise any act of ownership, for example, reselling the goods. The *receipt* of the goods may be either actual or constructive. The latter form of receipt is used when the goods remain in the seller's care at the request of the purchaser.

A sale may be governed by special conditions. Such is that of goods 'on approval.'² The purchaser, if he disapproves of them, must return them within a reasonable time, otherwise he will be liable for the price.

The *property* in a specific thing sold, and the *risk* affecting it, from the conclusion of the bargain pass to the purchaser, although he has not of course possession until delivery. If the goods have to be weighed, counted, or measured, the buyer becomes owner when that is done. So also if they have to be made, the property vests in the purchaser when they are

¹ See Lesson iv.—Lord Tenterden's Act (1829) provided that this should apply also to goods not in existence when the contract was made.

² Otherwise expressed as 'on trial' (*auf Probe*; *à l'essai*).

made, and approved by him. If the sale be for ready money, the seller has a 'lien'¹ upon the goods for the price so long as they remain in his possession. As wholesale transactions, whether in domestic or foreign trade, are usually on credit, a lien seldom attaches, because the vendor in such cases waives his lien *ipso facto*.

A person cannot by sale vest the property in goods in the purchaser if the former is not the owner; the rule being that you cannot give a man a better title to anything than you have yourself. Exceptions occur in the case of a sale in 'market overt' on market day,² and with regard to certain negotiable instruments transferred by a thief or finder to another person acting in good faith.³

§ 176a. A 'warranty'⁴ is an absolute undertaking by a vendor to be liable in the case of any defect in the *title* to the goods, or a like undertaking in respect of any fault in the *quality*; and it may be either 'express,' that is, in words or writing, to be given at the time the contract is made, or 'implied.' A man selling as owner impliedly warrants the title to the goods sold; so also on the sale of goods with trade mark, that they are genuine; or if goods are bought for a particular purpose, that they are fit for that purpose.⁵ The remedy for breach of warranty is to sue for damages; not to return the goods already accepted. If the vendor has fraudulently misrepresented⁶ the quality of the goods, the purchaser can either return them, or sue for damages. If it is an innocent representation, there is no remedy unless there was a warranty. "The rule in such cases is *caveat emptor*, by which is meant

¹ Sect. 57.

² By the custom of the city of London every shop within its boundaries is an open market on all days of the week except Sunday.

³ See § 91 above.

⁴ *Gewährleistung*; *garantie*.

⁵ See further below.

⁶ Mere puffing is not fraudulent. (*Smith v. Hughes*; cp. JUSTINIAN'S *Digest*, iv. 3, 37.)

that when the buyer has required no warranty he takes the risk of quality upon himself.”¹ A general warranty does not extend to obvious defects.

§ 176*b*. ‘Stoppage *in transitu*’² is the right of an unpaid vendor to stop goods which are in course of transit to the purchaser on learning that the other has become a bankrupt or stopped payment. The effect is to revive the vendor’s lien exceptionally; but if the purchaser has received the bill of lading³ of the goods, and has already sold them to a *bonâ fide* purchaser, or has pledged them to a *bonâ fide* pledgee, the vendor can only in the one case stop the money in the hands of the sub-purchaser, or in the other claim any surplus that may remain after the pledge has been paid from the proceeds of the sale of the goods.⁴

§ 177. The following varieties of wholesale transactions demand special attention:—(a) The sale of commodities susceptible of immediate delivery, the technical term for which is ‘spot.’⁵ A sale of this kind is usually effected *by sample*,⁶ and there is an implied warranty that the goods shall be of the same quality as the sample. Sale ‘by type’ instead of by sample is peculiar to the grain trade. (β) The sale of goods not actually available. Those which fall under this head are described as sold for *forward*, *future* delivery, or simply as ‘futures.’⁷ Purely speculative sales in the Produce Markets correspond to ‘time bargains’⁸ on the Stock Exchanges.⁹ In reports one constantly meets with the

¹ SMITH, *Compendium of Mercantile Law*, p. 606.

² *Retention ; rétention.*

³ See below under ‘Transit.’

⁴ The leading case is *Lickbarrow v. Mason*. (SMITH, *Leading Cases*, vol. i. p. 753.)

⁵ *Locoware ; disponible (effectif).*

⁶ *Nach Probe (Muster) ; sur échantillon.*

⁷ *Termingeschäfte, auf Lieferung ; marchés à livrer, livrable.* They are called ‘options’ in the Stock Markets (§ 267).

⁸ *Zeitgeschäfte ; marchés à terme.*

⁹ See Lesson xxviii. (§ 267).

expressions 'spot market,' 'terminal market.' Some sales for future delivery are perfectly legitimate, as commonly that of a cargo 'at sea.'¹ Others, such as 'options,'² are a form of gambling which has spread into business to such an extent in the United States that even schoolboys at New York speculate in petroleum certificates. Legislation was initiated in 1892 in the House of Representatives intended to impart a healthier tone to the markets by restraining transactions of this kind.³ The features of a 'bogus sale,' in which the seller has and will have none of the produce concerned, and the buyer has no intention of taking delivery of any, have been well described in Cassell's *New Popular Educator* under 'British Commerce,' to which the reader is referred.⁴

The contracting parties need not be present with each other; the negotiation may be conducted by correspondence, by 'wire' or telephone, and in all cases through agents duly authorised.⁵

§ 178. The main subject of negotiation is the **price**;⁶ that is, the determination of the market value of the produce expressed in money.

The value of a thing, which is its exchange-power, depends fundamentally upon its utility.

The essence of economic production is the *creation* of value,⁷ and "the matter involved grows less as the value grows

¹ *Schwimmend; en mer*. Such is also described as 'to arrive' (*auf Ankunft*).

² As in grain reports, 'Californian options.' The term is derived from the language of Stock Exchanges, and will be explained in that connection.

The seller will have to produce a certificate showing that the produce is actually in existence in warehouse, elevator, &c. It will be necessary to take out a general license, and a tax will be put on each transaction of a gambling nature.

⁴ Part 43 (vol. viii. p. 40).

⁵ Reference may here again be made to Lessons v. and vii.

⁶ *Preis; prix*.

⁷ See WALKER, *First Lessons in Political Economy*, chap. ii., ix., &c.

greater. . . . When iron ore is made into pig iron there is a great loss of iron, when pig iron is made into wrought iron there is a further loss, when wrought iron is wrought up into hardware the quantity is still more diminished, but at each stage there is an increase of value."¹

Labour is at all times and in all places the most accurate regulator of value. Hence, whilst the value of commodities is determined in general by their respective utility and scarcity, it is the cost value which is the most important factor in determining that of ordinary commodities. The price, or value in money, is governed either by the relation between demand and supply,² or by what it would cost to produce them.³

The supply of *agricultural* and *mineral* produce may be increased only by a greater proportionate labour; that is, by resorting to less productive lands or mines. That of *manufactured* goods, on the other hand, may be increased at the same proportionate expenditure of labour.

§ 178*a*. In wholesale transactions it is necessary to distinguish the normal (average, natural) from the market (current) price.⁴ The average price in any trade is that which represents the cost of production of the particular article, being determined by the average rate of wages and profit current in such trade. Of course if the market price of a commodity becomes less than this, its production is suspended until, by the contraction of supply, the price reverts at least to the normal figure.

§ 178*b*. The price of *agricultural* produce in any country is governed by the amount of land there under cultivation, which itself depends of course on its population. In a country

¹ *Op. cit.* § 20.

² MILL, *Principles of Political Economy*, bk. iii. ch. 2.

³ *Ibid.* ch. 3.

⁴ In G. and F. respectively: *Normalpreis* and *prix naturel*, *Marktpreis* and *prix courant*. As to 'price-currents,' see below.

like our own it is kept down by supplies imported, conjointly with improvements effected in methods of farming.

The price of *manufactured* goods depends on the current rate of wages in the respective industries.

The particular commodities which are most open to fluctuation, the circumstance that increased demand is sometimes abnormally accompanied by a fall in price, and the ways in which alteration in the price of any commodity may influence the price of others, are matters which demand careful attention in the study of manuals of Economics.

§ 178c. Whilst a general rise or fall of prices, which means a change in the value of money, is of common occurrence, there can be no such thing as a general rise or fall of values, it being of course absurd to suppose that the exchange-power of every commodity can rise or fall in comparison with all others.¹

§ 179. Actual prices are fixed by means of institutions called *markets*,² one variety of which, *fairs*,³ possessed most importance in mediæval times, whilst another form of markets, called *exchanges*,⁴ prevails at the present day. Each, as far as circumstances permit, exhibits the relation between demand and supply which is expressed by price; because buyers and sellers can here conveniently measure their position towards each other, competition being afforded full play; and not only various localities but different countries are thus brought in touch with each other, for the respective trades represented in such markets. A 'market price' is thus created for each commodity.

In the absence of trade between the village communities of early England, these had of course to supply their own wants as best they could. But from the inhabitants of one township meeting those of another at the boundary between them, traffic in the course of time sprang up in the nature of things, and

¹ MILL, ch. i. § 4.

² *Märkte*; *marchés (débouchés)*.

³ *Messen*; *foires*.

⁴ *Börsen*; *bourses*.

the stone which marked the division between two 'marks'¹ seems to have been the original of the market-cross, and the vacant area that of the market-place.² The old exclusiveness was for long persistent, so that even after the formation of urban communities and municipalities, the inhabitants of each accounted as a 'foreigner' a man who came from another town.

§ 179a. The importance acquired by London as a commercial centre from the time of the Roman occupation, and increased by reason of some kings making it their place of residence, was definitely established when, in the reign of the first Plantagenet, it became the capital of England in place of Winchester. Becket was a son of a portreeve or controller of the London market.³ In course of time special markets arose, for food-products in particular, such as those existing still, in Smithfield for meat, game, and fish, and in Covent Garden for vegetables and fruit.⁴ The care of the Metropolitan markets is vested in the City Corporation. Covent Garden and Spitalfields are held under charters granted by Charles II. Such privileged institutions hold a monopoly within a defined area.

§ 180. It was not until the reign of Elizabeth that London possessed an Exchange specially so called, and then by the fostering hand of Gresham, who was familiar with the usages and advantages of that at Antwerp, upon which the London 'Royal Exchange' of 1571 was modelled. The original building was destroyed in the Great Fire. That which replaced it was by the time of Anne daily the scene, at 'high-change,' of a motley assembly such as described by Addison when he says, "Sometimes I am jostled among a body of Armenians ;

¹ See § 152 above.

² According to MAINE, in his *Village Communities*.

³ For this sense of 'port' see BITHELL, *s.v.*

⁴ The like market in the Borough now takes precedence over Covent Garden.

sometimes I am lost in a crowd of Jews; and sometimes make one in a group of Dutchmen. I am a Dane, a Swede, or Frenchman at different times; or rather fancy myself like the old philosopher, who upon being asked what countryman he was, replied, that he was a citizen of the world.”¹ The Royal Exchange, however, has long ceased to meet the requirements of London traders in general. It was, indeed, burnt down a second time at the beginning of the present reign, and the present building only dates from 1844, since which time the Exchange has been under the joint jurisdiction of the Mercers’ Company, to which Gresham belonged, and the City Corporation, which provided a portion of the funds for its restoration.² The only use to which it is now put, except for the business on Tuesdays and Thursdays of a few firms dealing in foreign bills of exchange, is for the meeting of the leading oil, drug, and chemical merchants, on ordinary afternoons.

§ 181. Provincial trade was through many centuries carried on very much by means of fairs, some of which, as the Stourbridge Fair, had an European reputation, like that possessed abroad at the present day by the great fairs at Leipsic and Nijni Novgorod. English fairs largely sprang up in connection with religious festivals, such as that at Michaelmas, and often around some large abbey, as at Abingdon, “where the abbot himself made great profits as a trader.”³

§ 182. All Exchanges for the same commodity more or less, directly or indirectly, influence each other: ‘Sympathy’ arises between them in respect of prices. The Exchanges at leading centres are naturally those which maintain the closest touch with one another. Thus, in the coffee market one may observe the effect upon each other of prices at Hamburg, Havre, London, and Amsterdam; in the sugar market, those at

¹ *Spectator*, 19th May, 1711.

² The City arms, together with those of the Mercers’ Company, may be seen on its walls.

³ CREIGHTON’S *Social History of England*, p. 19.

London, Glasgow, Paris, and Hamburg. The markets of one country may regularly control those of another in some particular commodity. "America dominates our markets for cotton directly, and indirectly those for various metallic articles and machinery made from metals in England, in the one case being the chief supplier, and in the other one of the chief consumers of British goods."¹

¹ *Daily News*, 23rd Dec., 1890.

LESSON XXI.

MERCANTILE AGENTS; PRICES (continued).

Commission Agents and Factors—Brokers and Auctioneers—
Public Sales—Technical Terms.

§ 183. We may next supplement the remarks made in Lesson VII. upon Agency by some account of the functions of mercantile agents in particular, and the rules of law by which they are governed. In doing so we shall have to speak of commission agents and factors, brokers and auctioneers.

It is to the business transacted by those commonly designated *commission agents*¹ that British trade owes its supremacy.² To such are entrusted the vast consignments which reach or leave our shores. By a 'consignment'³ is understood goods sent by one person (consignor⁴) to another who is his agent (consignee⁵), whether in the same or a different country, for sale on commission. It is a common practice for the consignee to make advances to the shipper in anticipation of the proceeds.⁶ Unless the agent is paid a higher rate of commission as a *del*

¹ See § 50. So far as such traders also do business on their own account, they may be called 'commission merchants.'

² ROSCHER, *Nationalökonomik*, u.s.w., p. 98.

³ *Konsignation (Warensendung)*; *consignation*. (See *French Reader*, §§ 44, 46.)

⁴ *Absender*; *expéditeur*.

⁵ *Konsignatär*; *consignataire*.

⁶ For advances by banks on produce, see Lesson below on 'Banking.'

credere agent,¹ he is not responsible to his constituent for payment by the buyer.²

A *factor*,³ in like manner, is an agent to whom goods are entrusted for sale in particular, although he may also be a buying agent, so that there is no material difference between such a trader and a commission agent. They alike have possession of the goods, and a lien thereon for their commission, advances, &c. Such agents sell in their own name, subject to the rules affecting undisclosed principals,⁴ and on credit within reasonable limits; they receive payment and give receipts; they may give a warranty, if that be the custom of the trade; and they may insure the goods. The Factors' Act of 1889 provides that "any sale, pledge, or other disposition of the goods made by him when acting in the ordinary course of business of a mercantile agent shall be as valid as if he were expressly authorised by the owner of the goods to make the same, provided that the person taking under the disposition acts in good faith," and "a pledge of documents of title to the goods shall be deemed a pledge of the goods."⁵ The documents referred to are the bill of lading, dock-warrant,⁶ or any instrument purporting to authorise, either by indorsement or by delivery, the possessor of the documents to transfer or receive goods thereby represented.⁷

§ 184. Offers of service are in the course of trade made by one house to another, but chiefly by intermediaries, such as commission agents, who send market reports to their correspondents. A wholesale dealer will send his 'price-current,'⁸ in which he emphasizes the good quality and low prices of his goods.⁹

¹ Sect. 37.

² As to 'account-sales,' see below.

³ *Kommissionär*; *facteur*. In Scotland the word is used of estate-agents or bailiffs.

⁴ For these reference should be made to some handy legal treatise.

⁵ Sects. 2, 3. ⁶ See below. ⁷ Sect. 1. ⁸ See further below,

⁹ See further in *Précis Writing*, &c., ch. iv.

In orders sent for purchases or sales clearness is essential, to avoid possibly serious consequences. An order for purchase (indent) prescribes quality and quantity, price, packing, forwarding, insurance, &c.; one for sale, the terms to be given—whether cash or credit—the manner of payment, onus of charges, and the commission allowed.

In connection with such transactions, a person receiving an order has often to make enquiries of some third party as to the respectability of the new correspondent, as to his solvency and manner of doing business. Replies to these communications are naturally treated as confidential; but it is usual to guard oneself from liability by stating this, as by adding the words ‘without prejudice.’ No such language should be employed as would amount to a guarantee.

§ 185. A *broker*¹ is an agent for the sale of goods by sample, without having possession of them. He cannot as a rule act or sue in his own name. Every contract made by him must be entered and signed in a book appropriated by the broker to this purpose, which entry constitutes the contract. The broker’s signature avails to bind both parties. Buyer and seller both take a copy of the terms, the memorandum in the one case being called the ‘bought note,’ in the other the ‘sold note.’²

An *auctioneer*³ is a person authorised to sell goods or merchandise at a public auction. When the goods are knocked down, he is agent for both parties; his signature binds seller and buyer alike. He has a lien for his charges. It will be observed that a produce broker⁴ does the work of an auctioneer in his own line.

§ 186. “It is the work of brokers,” says Jevons, “in any extensive market to organize exchange, so that every purchase

¹ See § 50.

² ‘Contract-note’ in G. is *Schlusszettel*; in F., *bordereau (arrêt) de courtier*.

³ *Versteigerer (Auktionator)*; *commissaire-priseur*.

⁴ *Warenmakler*; *courtier de marchandises*.

shall be made with the most thorough acquaintance with the conditions of the trade.”¹ An article has thus but one price at one and the same time and place.² There cannot be two different cash prices³ for the same commodity founded on identical relations of demand and supply; but there can of course be one price for a ‘parcel’ sold at two months, and another for the same if sold at three months’ credit.⁴

Public sales⁵ conducted by produce brokers bring together other agents as buyers. ‘Conditions of sale’ are circulated, which are based on the usages of the particular trade. Thus at Liverpool the form sanctioned by the Cotton Brokers’ Association is universally employed. A document is employed as a voucher of each purchase which is called a ‘prompt note,’⁶ so framed as to be negotiable,⁷ and form security for advances. Upon payment of a deposit, the purchaser receives specifications known as dock ‘weight-notes.’ His payments must be completed by a fixed day (prompt day), or on delivery of the ‘warrants.’ Beside dock-warrants and warehouse-receipts,⁸ documents are employed for the transfer of goods which are called ‘delivery orders.’⁹ These too are negotiable, and, like dock-warrants, are much used as security to bankers for advances made by them upon the goods.

¹ *Theory of Political Economy*, p. 86.

² It is not so, however, always in retail trade, from consumers not taking care of their own interests. (MILL, bk. iii. 1, 5.)

³ It must be remembered that wholesale transactions are for the most part based on credit. (§ 84.)

⁴ As to the influence of credit on prices, see MILL, bk. iii. ch. 12.—It will be easily understood that, by economising the use of metallic money, credit serves to keep down prices.

⁵ *Warenauctionen; ventes publiques de marchandises.*

⁶ The word ‘prompt’ is from the Lat. *promptus* (set forth). Cp. Germ. *Zahlungsfrist* and Fr. *terme de paiement*.

⁷ Sect. 85.

⁸ *Lagerscheine; récépissés.*

⁹ *Auslieferungsscheine.*

§ 187. When goods have been disposed of, the agent renders an 'account-sales (A/S)'¹ in some such form as the subjoined.²

*Account-Sales of 500 bags of coffee shipped by s.s.....in
consignment, sold and delivered for account of Messrs.
....., Santos.*

W. & L. 501/1000	500 bags Coffee								
	Gross...lb. Allowance...lb. @ ³ ...%								
	Gross.....lb. Draft.....lb. %								
	..... Tare.....lb.								
	Net.....lb. @.....d. Discount %								
	Freight on.....@ sh.								
	in full per.....								
	£ s. d.								
	Insurance on £.....@.....%								
	Policy and Stamp								
	Customs' Entry and Stamp								
	£								
	Interest months @ per annum.								
	Receiving, landing, lighterage, over- hauling, sorting, weighing, fees, and petty charges								
	Warehouse-rent and Fire-insurance								
	Brokerage %								
	Commission and Guarantee.....%								
	Due the.....th of.....								

§ 188. In view of reproducing some Market Reports, we shall explain a few current phrases connected with price which meet the eye of a reader of the commercial columns in daily newspapers.

¹ *Verkaufsrechnung; compte de vente.*

² For a German form see ROTHSCCHILD, ii. p. 63; for French, MERTEN, p. 40. The form varies according to the branch of business concerned.

³ This represents the Latin *ad*, 'at,' sometimes as meaning 'to.'

When prices are said to have been 'firm' or 'steady,'¹ the meaning is that demand was preponderant, that sellers commanded the market; 'easy,'² that buyers had their own way through abundance of supply, and more on 'Change were sellers than buyers; 'looking up,'³ that buyers had increased, or supply had contracted, and price was rising. 'Hardening' or 'stiffening'⁴ is in contrast with 'shrunk.'⁵ 'Inquiry' or 'request' refers of course to demand.⁶

'Placed'⁷ indicates that some of the commodity in question was disposed of, contracts had been effected, or orders executed. 'Held'⁸ imports that 'holders' (sellers)⁹ would make no concessions.

'Free on board,' usually written as 'f.o.b.,'¹⁰ denotes that the goods are or were sold at a price covering all expenses to the time of shipment, and implies transference of risk to the buyer as from the time of delivery. London shippers generally buy goods from the provinces in this way. 'Ex ship,'¹¹ on the other hand, means that the liability of the buyer at the place of destination will accrue from the moment of his assumption of the cargo or part thereof as discharged on the quay ('quay terms').

'Cif.,' which stands for 'cost, insurance, freight,' means that the charges for insurance and freight are included in the price quoted.

¹ *Fest ; ferme, soutenu.*

² *Willig, leicht ; facile.*

³ *Steigende Tendenz ; tendance à la hausse.*

⁴ *Sich befestigen ; s'affermir.*

⁵ *Weichen ; fléchir.*

⁶ *Nachfrage ; demande.* Expressions such as 'quiet' (*ruhig ; calme*), 'dull,' 'slack,' 'flat' (*flau ; lourd, faible, languissant*), are self-explanatory.

⁷ *Placieren ; placer.*

⁸ *Halten ; tenir.*

⁹ *Inhaber ; détenteur.*

¹⁰ *Frei an bord ; (franco) à bord.*

¹¹ *Aus dem Schiffe, frei ans Ufer ; à quai.* Cp. 'ex-warehouse' (*Ab Lager ; pris en magasin*).

'Call' refers to the official prices announced from the board on which they are written when made up at stated times during Exchange hours.¹

As bearing on prices, statistics are frequently given of 'visible supply,' or stock 'in sight,'² which denotes the whole supply of a specified commodity already warehoused and available for the market.

¹ The call-rooms of the Paris Bourse are spoken of as *cabines*.

² *Sichtbar ; disponible*.

LESSON XXII.

MARKET REPORTS.

British Imports—Corn, Tea, Wool, Cotton, and Iron Markets—Foreign Markets—Prices (*continued*).

§ 189. BRITISH imports are classified as (1) food-products, (2) raw materials, and (3) manufactured goods; or (*a*) for home consumption, (*β*) for manufacture, (*γ*) for re-export. We shall take a few of the chief trade-centres, and, as was done with industries, select the staple commodities.

Most trades have special journals which record their movement. The daily reports in the *Times* serve for the London district, whilst the *Manchester Guardian* and *Glasgow Herald* are amongst the best of the provincial daily papers as regards their commercial reports.¹

London, besides being the central market for grain, is the chief mart for raw wool, for tea,² and for raw sugar, as well as spices, &c. There are separate Exchanges for various commodities. Mark Lane is the centre for grain; Mincing Lane for general produce; Coleman Street for wool; the 'Baltic,' in Threadneedle Street, for timber, &c.; Whittington Avenue for metals.³

¹ For French *bulletins de marché*, see *French Reader*, §§ 32-43, and journals like *Le Havre*; for German *Marktberichte*, such as the *Hamburgische Börsenhalle*.

² For coffee it also ranks first in this country, but in comparison with Continental markets comes after Hamburg and Havre.

³ Similarly in New York there is a Produce Exchange, a Cotton Exchange, and a Coffee Exchange.

Commencing with grain, we shall use a report from the columns of the *Daily News*.

“CORN.—Mark Lane, May 9 [1892].—The grain trade in the principal markets of the United Kingdom is firm. Wheat on many of the Exchanges is hardening in value, and is quoted rather dearer on the week in some. The official average price for the kingdom has been raised 3d. per qr.¹ At Mark Lane to-day English wheat was in light supply, and the turn against the buyer, but with a slow sale. Continued light arrivals from abroad, and decreasing waterside granary stocks, give some stability to the position of spot values, but a want of activity in the demand retards improvement. On the week an advance of 6d. per qr. is quoted, American being the firmest. No. 1 Northern Spring quoted 30s. The cargo trade continues steady for near periods, with a fair amount of bidding for arrived cargoes. For a small cargo of Oregon off coast 37s. 6d. is reported to have been bid. For Californian, same position, handy cargoes are worth 36s. 7½d. On Saturday Californian February bill of lading² changed hands at 35s. 6d. Calcutta wheats are quiet. On Saturday No. 1 Club, May-June shipment, for Hull, sold at 33s. 6d. From America crop prospects are not encouraging, and the cold frosty winds of the past week have in this country acted prejudicially upon the wheat plant in some districts. Flour is firm, and American patents, which meet fair inquiry. The Continental markets close generally quiet, but Paris steady for flour, and Buda-Pest also steady for wheat. On the spot barley is firm to slightly dearer, but cargoes are rather more offered, and for Danubian May shipment 18s. 6d. required. Maize on the spot is 6d. dearer, at 22s. ex ship for American mixed, and with a very scanty supply round corn is quoted 28s. . . . Oats on the spot have been very quiet, without quotable change.”

¹ 31s. 6d. In the corresponding week of the previous year it had been about ten shillings a qr. more.

² See below, under ‘Transport.’

The following¹ refers to 'terminal' or speculative business at this centre : "Calcutta Wheat.—London Produce Clearing House² Quotations.—May, 32s. 7½d. ; June, 32s. 3d. ; July, 32s. ; August, 32s. 1½d. ; September, 32s."

England imports more wheat than any other country, and London still takes the lead of Liverpool as a market for it, although the latter has the supremacy in foreign wheat.³ Liverpool is influenced directly by the New York market. Thus in a local report before us it is said : "Future Californians opened quiet and ¼d. below yesterday's final rates, in sympathy with American advices ; explained, upon reference to the circular report from New York, through Reuter's Agency,⁴ by 'values declined later, caused by better weather in the West.'"⁵

§ 190. "TEA.—The tea market to-day shows a distinctly better feeling with regard to all descriptions of common tea-leaf ; grades of both Indian and Ceylon are generally inquired for, and brokers have little stock on offer under 6d. Futures firmer. London Produce Clearing House quotations of good common China Congou—May, 5 9-16d. . . . April, 5 5-16d. per lb. Sales registered, 1000 half-chests. Fair whole-leaf Indian—May, 6 8-16d. . . . April, 6 7-16d. per lb. Sales registered, 1000 chests."⁶

More than four-fifths of the tea which reaches London is retained for British consumption ; the rest is re-exported, a good deal to Amsterdam, where it is submitted to competition at public sales.

¹ From the *Standard*, 10th May, 1892.

² Similar institutions at Havre and Antwerp are called *Caisses de liquidation*. A good deal of English capital is employed in the Havre Clearing House (Coffee). Cp. the German *Terminbörsen*.

³ Especially American, from New York, Baltimore, &c.

⁴ As to Reuter, see HAZELL's *Annual*, s.v.

⁵ *Liverpool Mercury*, 12th May, 1892. ⁶ *Standard*, 13th May, 1892.

§ 191. "WOOL.—London, April 4.—To-day's offerings by Messrs. ——— and Messrs. ——— amounted to 11,900 bales of fair average quality. The attendance was again large and the competition throughout was most animated. Good greasy cross-breds were in particularly active request, Cape growths being distinctly firmer. Faulty scoureds continue to fetch rather lower rates, but good parcels maintain full rates. The general hardening in prices is due to some extent to the improvement in trade which has set in in the northern woollen centres. French and German buyers were the keenest competitors to-day, and together absorbed a large proportion of the catalogues. The imports of wool for the week are as follows:—Victoria, 17,645 bales; New South Wales, 18,400; New Zealand, 22,326; South Australia, 9707; Queensland, 225; Cape and Natal, 7993; Tasmania, 3557; France, 907; sundries, 1,447—total 82,207."¹

The prices realised for wool at London auctions govern European markets in general. Antwerp now, however, competes somewhat with London from the fact that, through the lower dock-charges which prevail there, an increasing quantity of wool is sent to that port direct from our Australian colonies.

The following provincial report will exhibit the trade at a manufacturing centre:

"WOOL AND WORSTED.—Bradford, May 9.—The wool market is very quiet in respect of business. There is an active absence of speculation, and wool is generally bought in small quantities for immediate consumption. The recent advance in price has checked business and reduced orders to such as are urgently required. . . . In the yarn market the easier state of wool has had a good influence on business. Spinners appear to be better employed. The demand for export is more

¹ *Times*, 6th April, 1891. There are wool sales for East Indian at Liverpool also,

active, and *particulars* are placed more freely. Business, however, is done with some hesitation. In the piece-market business, especially in plain goods, continues quiet, though there is a gradual increase in the employment of looms.”¹

As part of the existing depression in trade, there has been a relapse in prices in this branch since the year 1890 of about 20 per cent.

§ 192 **Liverpool** is the world's chief mart for raw cotton, upon trade in which its prosperity is founded. It is also the chief British market for tobacco, and maintains a rivalry with London in rice.

Of cotton received at Liverpool about 75 per cent. comes from the United States (New Orleans, New York, &c.), 10 per cent. from Brazil, 7 per cent. from Egypt, and 8 per cent. from India. The article is sold in four different ways: (α) As ‘spot’ cotton, warehoused at the docks; (β) as ‘cf.,’ that is cost and freight included, or ‘cif.,’ with the addition of insurance included; (γ) ‘to arrive’ (for delivery), or ‘futures’ of the legitimate kind; and (δ) on pure speculation, which obtains chiefly for American descriptions. Transactions are settled through the Clearing House. The following extracts will place the reader in the atmosphere of the Lancashire and American markets.

“LIVERPOOL COTTON MARKET.—Wednesday, Four o'clock. —The market continues quiet on the spot, and in American the tendency of prices has again favoured buyers. Quotations are reduced $\frac{1}{16}$ d. . . . Arrivals opened at $2\frac{1}{2}$ to 3 points decline, and lost $\frac{1}{16}$ further. New York being reported *Steady*, $\frac{2}{100}$ c. *decline*, the market recovered a point, closing steady. . . . The second New York telegram was *Steady*, $\frac{4}{100}$ c. *advance*.”²

¹ *Daily News*, 10th May, 1892. For the *hosiery* trade, reference should be made to newspaper reports under ‘Leicester.’

² *Manchester Guardian*, 12th May, 1892.

"Wednesday Evening.—SPOT.—In sympathy with the dragging market in Manchester yesterday, trade here continues on a very unsatisfactory basis; and though there was a moderate business to-day the position is one of much gloom. The late spurt seems to have quite come to an end. . . . Brazilian and Peruvian were in moderate demand, and prices were steady and unchanged. Egyptians were again in fair demand at previous rates. Surats were quiet, and prices were unaltered. The sales were estimated at 8000 bales, of which 500 bales were on speculation and export.

"FUTURES.—New York broke on favourable reports from inland centres, and the Bureau report had also a bad effect, the market closing 6 to 7 points down. New Orleans was 4 to 5 points down. . . . The market here opened 3 points lower down on the disappointing nature of the Bureau report."¹

"NEW YORK, Wednesday.—Futures opened lower. After the Liverpool closing came to hand prices advanced rapidly, but at the third call they had declined. The close was dull. The chief causes of the decline were loss of confidence by *bulls*, sales to realise, and confidence respecting weather. The sales to-day for future delivery amounted to 75,000 bales.

"Spot cotton is $\frac{1}{16}$ c. lower. Business therein is more active. The demand is chiefly for export. Holders are offering more freely."²

"Messrs. ———, of New York, in their circular dated 2nd May, 1892, say:—The market during the week has been subject to two opposing influences; on one hand the crop accounts favouring the idea of a smaller production next year, and on the other the continuance of the lock-out in Lancashire. Fluctuations have been governed by the prominence alternately given to each of these factors."³

¹ *Liverpool Mercury*, 12th May, 1892.

² *Manchester Guardian*, as before. Reports in the *lace* trade will be found in newspapers under 'Nottingham.'

³ *Liverpool Mercury*, as above.

"MANCHESTER, Wednesday.—The yarn market to-day has been very quiet. . . . Business is confined to retail sales for prompt delivery, manufacturers shewing no inclination to buy forward. . . . Bolton spinnings of Egyptian cotton are very firm. . . . For shipping bundles for Eastern markets there has been scarcely any inquiry, and this department is specially dull. . . . For the Levant markets the business in yarns is all but stagnant.

"For China staple goods there is very little inquiry. . . . The India telegrams bring few offers for shirtings, but there is some inquiry for jaconets and mulls for bleaching. . . . The South American markets have been taking goods in very fair quantities up to quite recently, and are still doing a fairly steady business. For Egypt a steady though not extensive business is reported in some descriptions. . . . The African West Coast buyers are buying only in trifling quantities."¹

Cotton prices have receded about 25 per cent. during the last two years.

§ 193. *Glasgow* is the leading market in the United Kingdom for pig iron, although the London market now competes with it.

Iron ore is brought to most of our chief ports, as Cardiff and Glasgow, besides Newcastle, Liverpool, &c.

Pig iron is sent by the manufacturers to stores (such as Connal's, at Glasgow and Middlesborough), and the warrant, or warehouse-receipt, is the medium of sale.

"GLASGOW IRON, Thursday.—There was more activity on the Pig Iron warrant market yesterday, due to the desire of over-sold operators to cover their engagements, not an easy matter in presence of a scarcity of warrants. Some commitments were squared privately. This dealing had the effect of stiffening prices, and on the day there was a fair rise. The best

¹ *Manchester Guardian*, as before,

prices, though not the last, showed gains of $2\frac{1}{2}$ d. in Scotch, 4d. in Cleveland, and 3d. in hematite.

"On the LONDON market pig iron has tended higher on more limited offerings, and closes firm, with Scotch 2d., Middlesbrough $4\frac{1}{2}$ d., and hematite $3\frac{1}{2}$ d. to 4d. higher on the day. Middlesbrough one month, 1,000 tons was placed at 38s."¹

"BIRMINGHAM IRON TRADE.—The prospect of an early settlement of the Durham strike, though viewed with general satisfaction, is not favourable to business in the iron trade, as it encourages the expectation of lower prices both for coal and iron. There is a moderate demand for iron for local consumption, in connection chiefly with the tube, nail, bedstead and constructive branches; but shipping orders are exceedingly scarce, more particularly for the Australian colonies. . . . Marked iron is steady. . . . The pig market is strong in spite of the fall in Cleveland warrants, owing to the great reduction of stocks in the north, and the promise of a brisk consumptive demand there when iron-working is resumed in Durham. Staffordshire iron is unchanged at 62s. 6d. for hot blast native all-mine, 45s. for part-mine, and 36s. 6d. to 38s. 6d. for cinder."²

"SOUTH WALES IRON.—In anticipation of an early resumption of work in the Durham coal field a considerable amount of the tonnage has this week been taken up from Bilbao, particularly for the east coast. This has quickened the demand for ore all round . . . on account of the heavy stocks held by consumers. Manganiferous ore is dull of sale. . . . The pig iron market is weaker. . . . Cumberland hematite is quoted at from 52s. to 52s. 6d. per ton nett at Bristol Channel ports."

Prices in this trade have shrunk about 50 per cent. from those attained by the 'boom,' or inflation, of the year 1890.

¹ *Glasgow Herald*, 13th May, 1892.

² *Birmingham Daily Post*, 13th May, 1892.

§ 194. We shall next reproduce some reports from the eastern markets.

"BOMBAY, June 27 [1890].—Piece goods¹ quiet. 7lb. shirtings, 3r. 6a.; 8½lb. ditto, 3r. 15a. Cotton steady. New good Dhollerah, 186r. Shipments of the week, 23,000 bales. Exchange on London, four months' bank bills,² 1s. 6d. 17-32.

"HONGKONG, June 27.—Manchester goods dull. 8½lb. shirtings, 220 dols.; 16-24 Taylor's twist, 93 dols.; tea, total export to date, 13,000,000 lb. Exchange on London, four months' bank bills, 3s. 5d.

"CALCUTTA, June 27.—Piece goods dull. 7lb. shirtings, 2r. 13a.; 8½lb. 4r. 4a.; 40's Bannermill twist, 4a. 8p.; Jute, good native 1st marks, 29r.; Government securities,³ 4 per cent., 103; ditto, 4½ per cent., 106. Saltpetre, 6r. 6a.; linseed, 4r. 11a.; rape seed, 4r. 4a.; rice, Ballam, 3r. 8a. Exchange on London, four months' bank bills, 1s. 6½d. Freights, 22s. 6d. to 40s.

"SHANGHAI, June 27.—Manchester goods unchanged.⁴ 8½lb. shirtings, tls. 82. Silk strong green Kahing, tls. 312½. Unsold stock, 4,700 bales. 7lb. Mexican T. cloths, tls. 130. Exchange on London, four months' bank bills, 4s. 9½d. *Reuter.*"⁵

Besides the incidents of British trade with India and China, the reader should trace the development, already considerable, of American trade with those countries.

* ¹ By these are meant grey cotton, mulls, jaconets, shirtings, madapollans, printers' cambrics, longcloths, sheetings, drills, &c. (SIMMONDS, *Commercial Dictionary of Trade Products*, s.vv.) The cotton manufactures of India herself are carried on at Delhi, Dacca, Bangalore, &c.

² Bills of Exchange drawn and accepted by bankers; sometimes spoken of as 'bankers' acceptances.' See further under 'Banking,' below.

³ See below under 'Stocks.'

⁴ India now competes with England for the China trade.

⁵ *Daily News*, 28th June, 1890.

§ 195. An Australian statistical trade report will close these extracts.

“MELBOURNE, Feb. 5 [1890].—The total exports from Melbourne, Adelaide, Sydney, and Queensland to Great Britain for the past month have been: Wool, 95,000 bales; tallow, 1,700 tons; copper, 400 tons; copper ore, nil; wheat, 35,000 qrs.; flour, 300 tons; tin, 200 tons.”¹

§ 196. **Price-currents**² are priced catalogues supplied by commission merchants and others to their customers, which exhibit the average prices in the respective trades.³ Some houses prefer not to alter the prices quoted from time to time, and simply to change the discount allowed. Thus in the Birmingham district, prices dealt with in this way have been known to be subject to a discount of as much as 60 to 70 per cent. allowed to middlemen.

§ 197. A few varieties of price remain still to be noticed.

‘Contract price’ as between producer and dealer requires no explanation. *Monopoly* price has to be considered as arising not only in respect of naturally limited production, but also through artificial restrictions, which may be either those imposed by the State, or such as individuals and combinations of individuals can effect. Monopolies created or definitely sanctioned by the State in regard of the distribution of commodities have long since in England been abolished by statute,⁴ but we meet with them in other countries. Thus, salt is the subject of a monopoly in British India; tobacco in

¹ *Times*, 6th February, 1890.

² *Preislisten*; *prix courants*.

³ A form of ‘price-current’ for produce may be seen in the *London Commercial Record*, published weekly. A like supplement is supplied to purchasers of the weekly editions of *Le Havre* and *Hamburgische Börsenhalle*, referred to in a note above.

⁴ § 173a. At the beginning of the seventeenth century seven-eighths of English foreign trade was in the hands of about 200 London traders, (HUME’S *History of England*, ch. xlv.)

France and elsewhere. Monopolies created by individuals occur at the present day in the form of 'corners,' representing the mediæval 'forestalling' and 'engrossing'; as when a trader manages to acquire control over all or most of the available supply of some commodity, in order to dictate his own price.¹ 'Trusts,' or Syndicates, are combinations of traders having this object.²

*Retail price*³ is governed by the wholesale. Retailers add a percentage, which varies little, to the immediate 'trade price'⁴ paid by themselves. Care has to be taken by them in marking goods, otherwise they may lose instead of gaining: a retailer robs himself who calculates his profit upon the first cost only, but reckons discount on the first cost in conjunction with the profit. Symbols, only known to himself, are commonly used for marking retail price.

Travellers, some representing manufacturers, and others dealers, are for the most part intermediaries between dealers.⁵

It should not be forgotten that tax is sometimes an element in price.

§ 198. The chief stages in the history of English general prices are (α) the revolution of prices in the time of Elizabeth, occasioned by the discovery of the American mines; (β) the fall of prices which occurred about the year 1810, partly from interruption in the working of the South American silver mines; (γ) the rise which took place in consequence of the discovery of gold in California some forty-five years ago; and

¹ A recent case was the 'cotton corner' at Liverpool in 1889, which was a victory of 'bulls' over 'bears.' There was a 'coal corner' in Westphalia in the early part of the year 1891. Upon this subject see *Chambers's Journal*, Fifth Series, vol. i., No. 19.

² *Ibid.* vol. vi., No. 264; or HAZELL'S *Annual* for 1889, s. v.

³ *Ladenpreis*; *prix de vente*.

⁴ *Einkaufspreis*; *prix de revient*.

⁵ As to the division of profits between those into whose hands the commodity passes successively, see DANSON, *Wealth of Households*, §§ 425 ff.

(8) the decline from the year 1874, resulting from the general depression of trade, which lasted for some twelve years. After a revival of prices in general, there has been a fresh relapse in some already spoken of, through dislocation of trade from want of confidence.¹

¹ The influence of improved transport on prices has been mentioned in connection with that subject.

LESSON XXIII.

THE CARRYING TRADE (continued).

Railway Transit—Sea-borne Traffic—Contract of Affreightment—
Customs—Insurance.

§ 199. THE subject of **Transport** was before us in various aspects in the Tenth Lesson, but the consideration of its commercial mechanism was left over for separate treatment. This will be the subject of the present lesson.

Carriage upon highways by means of vans or trucks,¹ in the present state of communications in this country, has lapsed into insignificance. In transmission by railway,² goods may of course be sent, except on a large scale, either by passenger train³ or by goods train.⁴ The consignor fills up a 'consignment note'⁵ or declaration: the 'consignment sheet,' or 'way-bill,' signed by each consignee on receipt of goods intended for him, is a copy of the various notes with reference to all the goods in the carman's charge.

The company's tariff of rates⁶ is governed by the powers given to it in the Act constituting it and the regulations

¹ *Achse*; *roulage*.

² *Eisenbahn*; *chemin de fer*. (Reader, § 18.)

³ *Eilgut*; *par grande vitesse*.

⁴ *Güterzug*: *train de marchandise (par petite vitesse)*.

⁵ Represented elsewhere by the American inland bill of lading, the German *Frachtbrief*, and French *lettre de voiture*. A 'bill of lading' (*infra*) is used in England only for sea-borne merchandise, or goods sent in part by sea ('through bill of lading'). 'Consignment notes' are also used by town carriers.

⁶ *Fuhrlohn*; *voiture*.

from time to time made by the Board of Trade, which has recently been engaged in the revision of rates throughout the country in the interests of the national trade.

§ 200. Carriage by sea is required for, and is of chief importance in respect of, our foreign trade.¹ Ships, of course, vary in their proportions, according as they are suited for ocean voyages or for the coasting trade.² Steamships have entirely superseded sailing vessels on many trade routes, amongst which the great liners will engage attention at one time, common cargo boats at another. Shipbuilding forms one of our great national industries, especially as pursued on the banks of the Clyde, Tyne, and Wear.³

§ 201. An export merchant needs a ship for the conveyance of his merchandise; a shipowner, employment for his vessel. The intermediary who brings them or their representatives together⁴ is called a 'shipbroker.'⁵ The agreement effected is, on the part of the shipowner,⁶ to load and carry to some port generally prescribed,⁷ and there discharge a certain cargo. This is applicable to shipments *en bloc*, or 'full consignments.' In the case of several distinct shipments, in French technically called *en cueillette*, the vessel, being hired by several shippers, is called a 'general ship,' and is not then chartered, but each several 'bill of lading'⁸ takes the place of a charter.

¹ The coasting trade (*Küstenhandel*, *cabotage*) we shall not treat separately from shipping in general. Its incidents are of course to a limited extent the same as those of transmarine traffic. A 'foreign-going' vessel is technically one destined for some port beyond Brest in one direction, or beyond the Elbe in the other, having a 'long voyage' to make: voyages made within these limits are treated as 'short.'

² As to Lloyd's classification, see § 140, above.

³ A considerable amount of work is done for other countries, especially the German Empire, whose merchant fleet now ranks next to our own.

⁴ The London Shipping Exchange is in Billiter Street.

⁵ *Schiffsmahler*; *courtier maritime*.

⁶ *Kheder*, *Verfrachter*; *armateur*, *fréteur*.

⁷ Sometimes an option is given, as 'Naples, option Leghorn,' 'Cardiff, option Newport.' See further below.

⁸ *Infra*.

The owner is then a 'common carrier.' On the part of the hirer¹ of other than a general ship, the bargain is to pay for such carriage a certain sum, calculated according to either the weight or measurement² of the goods, heavy or light respectively, which remuneration is what in law is meant by 'freight.'³ The legal designation of this, the chief of shipping contracts, is a 'contract of affreightment'; the merchant is said to 'charter'⁴ the vessel, which is then said to be 'fixed'; and the document, usually a deed, setting forth the arrangement is called a 'charter-party.'⁵

The following is a customary form of English charter-party.⁶

Charter-Party of the
It is this day mutually agreed between
good ship or Vessel called the
 of the measurement of
 tons,⁷ or thereabouts, now
 and of
 Merchants,
That the said ship being tight, staunch,
and every way fitted for the Voyage, shall,
with all convenient speed, sail and proceed
to
or so near thereunto as she may safely get, and
there load as customary from the Factors
of the said Merchants a full and complete
Cargo of
to be brought to and taken from alongside,

¹ *Befrachter*; *affréteur*.

² As to measurement freight, see HOWARD, *Art of Reckoning*, s.vv.

³ *Fracht*; *frete*.

⁴ *Befrachten*; *affréter*.

⁵ *Frachtcontract*; *charte-partie*.

⁶ For a G. form, see NOBACK and POND (ed. Remschel), pt. II, pp. 193 f.; for F., KORTS, pt. ii., p. 121.

⁷ A ship's tonnage is calculated according to cubic tons, each of which is forty cubic feet; but the register tonnage followed by the Customs' authorities is 100 cubic feet to a ton.

Stamped Original Charter-Party in our possession.⁷
 The Brokerage is at ... per cent. by the Ship on the gross amount
 of Freight, and is due on signature of this Agreement, to.....

free of risk and expense to the Ship, not exceeding what she can reasonably stow and carry over and above her Tackle, Apparel, Provisions, and Furniture,¹ and being so loaded shall therewith proceed to or so near thereunto as she may safely get, and there deliver the same on being paid freight as follows:—Say per ton of 20 cwt., British weight delivered

... Shillings ... Pence, if ordered to² ...

... " ... " " " " " ...

... " ... " " " " " ...

in full³ of all Port Charges and Pilotage. (The Act of God,⁴ the Queen's Enemies, Restraint of Princes and Rulers, and all and every other Dangers and Accidents of the Seas, Rivers and Navigation, of whatever nature and kind soever, during the said Voyage always excepted.) The Captain to have an absolute lien on the Cargo for all freight, dead freight⁵ and demurrage,⁶ in consideration of which Charterer's

¹ Limitations are for obvious reasons placed by statute, the last the Load Line Act of 1890, upon the amount of cargo a ship may receive.

² The form given is an illustration of 'open charters.' The ship in such a case will put in at a port of call for orders, which, governed by market operations, are telegraphed to the captain there.

³ In French, *sec*.

⁴ *Höhere Gewalt*; *force majeure*.

⁵ A sum paid to the shipowner by the charterer in respect of deficiency of cargo put on board. In French, *faux frêt*.

⁶ This word, which is used in railway traffic of the detention by one company of the trucks of another, here denotes a penalty for every day that the shipper takes to load or unload longer than the time given him. See below. This is in German *Liegegeld*; in French, *surestaire*. It must be distinguished from the sense in which the same word is used in § 74 above.

⁷ The stamp duty is 6d.

*liability to cease on due shipment of Cargo.
The freight to be paid on unloading and
right delivery of the Cargo in cash at
current rate of Exchange.¹*

*The necessary cash for ship's ordinary
disbursements to be advanced by shippers
at the port of loading, on usual terms.*

*A regular turn for loading, }
and working days } are to be allowed
for discharging } said Merchants.*

*And up to Days on Demurrage,
over and above the said lay days,² at
..... Pounds per Day.*

*The ship to clear with Merchant's Broker,
at port of discharge, free of address com-
mission, but paying usual clearance fee.*

*Penalty for Non-performance of this Agree-
ment, estimated amount of Freight.*

Witness to the Signature of

Witness to the Signature of

§ 202. The *Times* review of 'Shipping and Freights' for the year 1891³ began by saying: "The past year will long be remembered by those in the shipping world for the height to which freights have risen. . . . This was caused by the failure of the crops in Europe, and the unusually fine crops in America and Canada. . . . With the stoppage of supplies from Russia, all eyes were turned to the granaries of the West, and the shipping community throughout the world underwent

¹ That is, the rate on the day of entry inwards at the port of discharge.

² Also called 'running days,' *Liegetage=jours de planche*.

³ In the issue of January 2nd, 1892.—Periodical reports appear in this journal, as also in the *Glasgow Herald* and other leading commercial papers, the rates obtained at Newcastle and Cardiff being, amongst others, regularly recorded.

a period of feverish anxiety. . . . The French miners' strike in turn attracted freights, and good figures were obtainable for French coast ports."

§ 203. The characteristics of the leading ports of the world should be carefully learnt. Thus, taking by way of illustration London and Liverpool in England alone, the student should note how one is specially connected with our import and Eastern, the other with our export and Western trade. Much of the 'movement' of the port of London is owing to transit trade, goods being first brought to the Thames, to be afterwards transhipped to other countries.¹ Wool, rice, cotton, coffee, sugar, hemp, hides, tea, metals, wheat, flour, tallow, spices, fruits, wine and spirits, are all forwarded from London in considerable quantities to other trading centres.

By an 'in and out' port is meant one in which a ship that has brought other than a general cargo will readily find a like freight outward. Such are Liverpool, Glasgow, Cardiff, Newcastle, and Hull. *

Ports may be either seaports, as Leith, or 'river ports,' as London. Ports of loading are classed as 'grain ports,' 'cotton ports,' 'timber ports,' 'ore ports.' Here again the reader must use his *Commercial Geography*.

§ 204. The various structures for berthing ships having to load or discharge cargoes or undergo repairs, and severally called 'docks' (wet and graving), 'quays,' and 'wharves,' will be found more or less in every port or harbour. Residents in the North of England have but to traverse the banks of the Mersey for some nine miles continuously, those in the South the Thames from Blackfriars Bridge to Greenwich, to know what the world's best are like, and to realise the enormous development of transport, exhibiting in an instructive way the resources and enterprise of our people at the present day.

¹ Liverpool is also an *entrepôt*, but far from being so on the same scale as London. In the East, Singapore owes much of its prosperity to its favourable position for transit trade.

M. Henri Taine, whose eye nothing seems to have escaped, has given a vivid description of both these great ports in his account of visits to England. Each London dock,¹ he says, is a vast port, and the whole scene "the trysting-place of the world."² The prevalence of wharves is noticeable at London.³ There is no confusion, nearly every trade has its own quarter. London's share of the imports into the United Kingdom in that year of plenty, 1889, was one-third; that of goods in transit was nine-tenths. London has always stood first for imports.⁴

The docks at Liverpool "resemble watery streets and squares." Along them "cotton warehouses form a kind of cyclopiian, endless rampart." You may see a multitude of ships "crowded together in rows and masses at the entrances awaiting their turn to pass in"; whichever way one turns it is to be confronted with "a spectacle one of the grandest in the world."⁵ Liverpool superseded Bristol as the great port of the western coast of England from the time that raw cotton began to reach us from America, and now holds the first position in the country for exports.⁶

Dock charges, no less than railway rates, need to be watched in maintaining competition with other countries; chiefly so in the port of London, to which the custom prevailing elsewhere⁷

¹ East and West India (with Import D., Export D., and D. Basin), Albert and Victoria, St. Katherine's, Tilbury, &c.

² p. 31 of the English translation.

³ There are none at Liverpool.

⁴ Bristol used to stand next. Hull early appeared in the foreground. Southampton came into importance through the trade with Venice. Plymouth became prominent in the Tudor period, from the time that the elder Hawkins opened the trade with Brazil. Glasgow owed its importance first to the tobacco trade, which sprang up there immediately after the Union was effected (1707).

⁵ TAINE, p. 281. The Alexandra Dock is so extensive as to admit of twenty-two of the largest steamers loading or unloading at the same time.

⁶ As cotton, woollen, and metal goods to the United States, India, Australia, &c.

⁷ As at Liverpool and Glasgow.

of vesting the control of docks in a Harbour Trust, representing every local interest and not aiming at profit, remains to be applied.

Warehouses are a characteristic feature of English and Dutch docks. In London the warehouses belong to the Dock Companies, at Liverpool they are owned by individuals. A considerable number elsewhere belong to Government.

§ 205. When 'stevedores,' 'trimmers,'¹ &c., have done their work, the mate of the vessel gives a receipt for the quantity of cargo taken in, and a document called a 'bill of lading'² is then made out in triplicate, one copy being for the consignee, another for the captain, and a third for the shipper. In this are set forth a description of the cargo, and the weight or number of the packages, with marks, &c. It is, when signed by the captain or by the broker in his behalf, a receipt for the goods given by him, in which he agrees to deliver them to the consignee therein named.

The form which follows is one commonly employed.³



Shipped in good order and well conditioned
by in and upon the good steam
Ship called the whereof is Master
for this present voyage Capt. and now
riding at Anchor in the and bound
for

Mr.
..... being marked and numbered as in the Margin
..... Bales of and are to be delivered in the like good Order
..... X. Y. and well conditioned at the aforesaid Port
..... to of (the dangers of the Seas only

¹ At Liverpool the person responsible for the loading or discharge of the cargo is called a 'master porter.'

² *Konnossement; connaissance.*

³ Many steamship companies have their own form of bill of lading. For German form see NOBACK and POND (ed. Remschel), ii. 195; for French, KORTS, ii. 118.

excepted) unto
Received in Freight *or to his* *Assigns,*¹ *he or they paying*
 *Freight for the said Goods of*.....
Advance *with Primage*² *and Average*³ *accustomed.*
In Witness *whereof the Master of the Ship*
Insurance *has affirmed to three bills of Lading all of*
 *this Tenor and Date the one of which three*
Bills being accomplished, the other to stand
*void.*⁴
Dated in
*Weight and Contents unknown.*⁵
*(sig.)*⁶

Bills of Lading are subject to a stamp duty of 6*d.* upon each of the set.

¹ These words denote the *negotiability* of the instrument, so far that a delivery (with indorsement if necessary) by virtue of the Bills of Lading Act of 1855 operates as a transfer of the contract. Before that Act came into force such transfer operated only in regard to the goods, not the contract, as between the shipper and the captain. We shall describe the process of raising money on the instrument in a later lesson.

² This means a payment made by the consignee, at one time to the captain, but now to the owner of the vessel, for the use of any of the ship's tackle, or for assistance given by the crew in the loading or discharge of the cargo. If primage be included in the freight, this is said to be 'in full.' (Fr., *sec.*)

³ The word as used in this connection means a charge borne by ship and cargo proportionally, to meet cost of lights, pilotage, &c. It is, however, generally merged in 'primage.' For another meaning of the same word see § 145 above.

⁴ Here are sometimes added the words 'other conditions according to Charter Party.'

⁵ When the captain or his agent signs subject to the addition of these words, the bill of lading is said to be 'clean,' or qualified. The captain is not then bound by the weight or measurements shewn in the margin.

⁶ A 'through bill of lading' (§ 199*n*) is usually signed by the railway clerk who attends to the matter.

§ 206. The requirements of Her Majesty's Customs (H.M.C.)¹ affecting an outward bound ship must now be explained; that is, the 'clearance outward,'² which is effected as follows. The master of the ship, or his representative,³ attends before the collector or other proper officer, answers all inquiries made by such officer concerning the ship, the cargo, and the voyage, and delivers a 'content,' according to a form prescribed by the Customs Consolidation Act.⁴ The authorities have power to compel production of documentary evidence. When entry has been made, a voucher to that effect is issued by the officer which is called the 'cocket.'⁵ *Custom*, according to modern practice, which agrees with economic theory, is not levied on exports.⁶

It is from entries at the Custom House that statistics of exports are derived.

§ 207. Before the ship sails, it is usual for the parties respectively concerned to effect *insurances* of the ship, the cargo, and the freight, upon payment of premiums, either to 'underwriters,' who are members of Lloyd's,⁷ or to some insurance office doing this class of business. The services of an 'insurance broker'⁸ may be employed. The routine at Lloyd's is as follows: the clerk charged with arranging for a policy writes on a piece of paper, which is called the 'slip,' the name of the ship, particulars of the voyage, the subject-matter of insurance and the amount to be covered, with the

¹ Custom House business is regulated chiefly by the Customs Consolidation Act, 16 and 17 Vict. c. 107.

² *Ausklarieren*; *expédition*.

³ Such business is generally transacted by a 'Custom House broker' (*Zollhausmakler*; *agent en douane*).

⁴ Customs' forms may be obtained from the Queen's printers.

⁵ *Begleitschein* (Eitzen). The English name is derived from 'quietus' (acquittance) at the end of the old Latin form of the document. (DOWELL, i. pp. 171-2.)

⁶ It was formerly taken on wool, skins, and leather, reserved to the sovereign by 25 Edw. I. c. 7.

⁷ Sect. 140 above.

⁸ *Versicherungsmakler*; *courtier d'assurance*.

proposed conditions¹ and the estimated rate of premium. This he takes to the underwriters' room at Lloyd's,² and submits it to one after another until he has accomplished his object; each underwriter in turn who will undertake a portion of the risk initials the slip, writing also the amount of liability he accepts. From this a formal policy is afterwards prepared, in such a form as that given in an earlier lesson,³ which is in due course executed by the parties, and stamped as required by the Stamp Act.⁴

§ 208. Following preparation of the bill of lading comes that of the 'invoice,'⁵ which must contain description, quantities, and value of the shipment, with charges, outlays, and other details as the case requires. As this must generally be exhibited at the foreign Custom-house, care should be taken to omit nothing important.⁶ For some countries an invoice is required which has been certified by the proper consul at the port of loading. This should be transmitted to the consignee with the bill of lading, a duplicate being perhaps also sent by the ship, which must also carry as its 'papers' a 'manifest' or detailed list of the cargo, the certificate of the registration of the ship, a 'bill of health,' and 'log' (diary).⁷

§ 209. The consignee will be advised by wire of the sailing of the ship, and until its safe arrival he may refer to the shipping intelligence in his newspaper for daily reports as to weather along the route to be traversed. Any casualty that

¹ *e.g.*, whether the insurance is to cover all risk, or to be free of 'particular average.'

² At the Royal Exchange.

³ Sect. 142.

⁴ The stamp, *e.g.*, for £500 would be 5s.; for £1000, 10s.

⁵ *Faktura*; *facture*. A form of invoice and some remarks supplementary to what is here said will be found in § 279 below.

⁶ The same for bills of lading, as to the contents of which the Russian Customs' regulations, for example, are very stringent.

⁷ There are also various regulations as to pilotage to which the master of the vessel must conform.

may befall it will raise one or more questions dealt with in Lessons x. and xvi.¹

§ 210. If the vessel have to call at an intermediate port for orders, the consignee must wire instructions for the captain to such port. He will in due course send the shipper intelligence of the arrival of the ship at her destination. If the ship have not a clean bill of health, by reason of the prevalence of an infectious disease at the port from which she proceeded, she must undergo 'quarantine' before actually entering the port for which she is bound.

No time will be lost by the Customs' authorities in boarding the ship, and on her being berthed at the quay, or in the dock, 'searchers' will be in attendance to commence their duties. The master, within 24 hours of his arrival, must deliver his 'ship's report,' which is a copy of the 'manifest,' to the collector, who will require documentary evidence from the importer also. If the latter have not materials for supplying the information required, the collector, upon his making a declaration that he has not received sufficient invoice, bill of lading, or other advice from whence the quality, quantity, or value of the goods can be ascertained,² will grant a 'bill of sight' enabling him to view the cargo in the presence of the Customs' officers. When the 'prime entry' has been disposed of, the collector issues a 'permit' that the searchers may authorise the discharge of the cargo.³

The 'Bill of Entry' exhibited daily at the Custom Houses of London and Liverpool is made up of all the entries of the previous day, and is copied for the newspaper columns devoted to shipping intelligence.⁴

§ 211. As between the captain and the consignee, the former will present his copy of the bill of lading to the importer,

¹ See §§ 70, 140 ff.

² Customs form, No. 21.

³ By 'contraband' is meant goods which it is unlawful to bring into or take out of the country. Such are liable to confiscation.

⁴ See, for instance, any number of the *Daily News*.

whose possession of a copy thereof will be his authority for receiving delivery of the goods; he will compare the two to see that they agree; and on being satisfied as to this, will pay to the captain the balance of freight due to the ship, calculated at the exchange of the day. The shipowner, it will be remembered, has a lien upon the cargo for any freight unpaid, including any 'demurrage' that may accrue from prolongation of the discharge beyond the time limited in the charter-party.

§ 212. When a 'perfect entry' has been made, the consignee proceeds to 'clear'¹ the cargo by passing at the Custom House the various papers required by the regulations.² The duties are paid either on the invoice value³ or, as in some countries, on the value of the goods in the country of importation, a liability which is of course the more onerous. Payment of these is attested by the warrant, called a 'cocket.'

As with exports, statistics of a country's imports are framed by the Statistical office of the Custom House.

§ 213. It is not, as a rule, necessary to make immediate payment of duty upon goods that are actually chargeable, even if destined for home consumption, if the department retain control over such goods. This is done by means of the 'warehousing system,'⁴ the goods being stored 'in bond'⁵ until the importer pays the duty upon removing them when sold.⁶ If they are kept in a private warehouse, the revenue officer puts one lock on the outer door of which he holds the key, and the proprietor keeps another lock: in this way neither can have access to the goods without the aid of the other.

¹ *Einklarieren*; *pourvoir aux droits d'entrée*.

² See HAM'S *Customs' Manual* for British practice.

³ For American practice, see the *Crittenden Arithmetic*, pp. 180 ff.

⁴ Sect. 124.

⁵ *Unter zollamtlichem Schluss*; *en entrepôt* (cp. *admissions temporaires*).

⁶ Rent will run upon goods stored in a Government warehouse. In this country, however, the majority of warehouses are in private hands. In France and Belgium a like distinction obtains between an *entrepôt public* on the one hand, and an *entrepôt particulier* or *fictif*, on the other.

No duty at all will be paid on such goods if they are re-exported ; that is, if they are 'goods in transit.'

The duties on corn, grain, meal, and flour, and wood goods from British possessions must, exceptionally, be paid on the first importation thereof.

'Free ports' were those which enjoyed exemption from government taxation. Such were Hamburg, Bremen, and Trieste, until a recent period.

§ 214. The importer will of course check the invoice by the goods. If he have any cause for dissatisfaction with the shipment he should make it known to the shipper without delay, so as to have an effective claim in respect of short delivery, or compensation for the imperfect state of the goods, or other grievance.¹

¹ For correspondence in matters of transport, see *Prctis Writing, &c.*, ch. v.

LESSON XXIV.

BANKING.

Early English Banking—Banks of Circulation, Deposit, and Issue—
Ordinary Business of Banks in General—Banks of Issue—Private and
Joint Stock Banks.

§ 215. HAVING in Lesson XII. briefly introduced ‘the trade or business of’ Banking¹ as that by means of which money is widely circulated and credit is created and regulated, we can now investigate the various features and operations of this branch of business.

Until the reign of Charles I. it was usual for London traders to place moneys not actually required in their business in the custody of the Treasury; but the seizure by that king of the merchants’ money at the Mint turned the London goldsmiths into depositaries. The confidence of the trading community in the Crown was further shaken by the stop of the Exchequer in the reign of Charles II.,² and already before the foundation of the Bank of England, the goldsmiths had become bankers in the modern sense of that word, by commencing to discount their customers’ bills.³

As far as transmission of money from one part of the country to another is concerned, a crude form of banking had sprung up in the provinces through the accommodation afforded by tradesmen to their customers with that object.

¹ As it is described in an Act of the year 1826, referred to in the next Lesson.

² As to this see MACAULAY, *History of England*, vol. i., p. 106.

³ Cp. § 97 above.

§ 216. Banks are divisible as to their objects into those of circulation, deposit, and issue. All British banks are probably banks of deposit; most are banks of circulation¹; and a limited number are banks of issue. We shall first describe the business of an ordinary bank of circulation and **deposit**.²

Deposits are the basis of all banking. Money is received on 'deposit accounts' specially so called, upon which interest is allowed by the banker according to the time for which such money is left in his hands, or the length of notice to which it is subject.³ Other accounts may be opened, which are called 'current,' 'drawing' accounts,⁴ upon which no interest is allowed.⁵ To what has already been said about 'cheques'⁶ we may here add mention of the 'pass book,'⁷ which contains a copy, for his information, of the particular customer's account in the bank ledger.⁸ To economise the time and labour of the various banks in London and Manchester, cheques, as well as bills, notes, and drafts are collected, and others (not paid over the counter) are accounted for daily through the Clearing House⁹ in each of these cities. The various balances, when struck between the different banks concerned, are settled by a cheque on the Bank of England, where each London bank's

¹ Savings banks (*Sparkassen*; *caisses d'épargne*), and the banks of mere money-lenders (*Leihkassen*; *caisses de prêts*), are not strictly banks of circulation.

² *Girobanken* (cp. §§ 97 and 98); *banques de virement*. (Cp. § 96 above.)

³ These are often also described as 'dead accounts.' As to the usage of the Bank of England with regard to interest on deposits, see below.

⁴ The amounts deposited in either way in British banks are at present together estimated at £850,000,000.

⁵ Scotch banks, however, allow interest even on these accounts, calculated upon the average monthly balance.

⁶ Sect. 91.

⁷ *Bankbuch*, *Kontogegenbuch* (of the Berlin Reichsbank); *livret de banque*.

⁸ As to the elastic use of the word 'cash,' entered on the right-hand side of a pass book, see BITHELL, *s.v.*

⁹ Cp. the *Abrechnungsstelle* (at Berlin and Frankfort); the *Saldirungsverein* at Vienna; and the *Chambre de Compensation* at Paris. There are also clearing houses at New York, Boston, and Rio Janeiro. 'Clearing' is in German, *Skontration*; in French, *virement*.

reserve is kept. A return of the Metropolitan clearing is issued and published in the London newspapers of Friday in each week.¹

§ 217. The *profits* of a bank are chiefly made up of the difference between the amount allowed by it on deposits, and that received from discounts or interest on loans or investments. Whilst the partnership funds of course form a necessary portion of its capital, and are its 'real capital,' a bank's principal source of loan-capital is the fund created by its deposits.² The allowance made to customers for moneys lodged with a bank is governed by the current rate of discount, which is the principal operation of credit,³ and the discount rate is in turn dependent on the Bank of England official rate. This last has usually been higher than the 'open market' rate, by which is meant that of the other banks and discount houses. And here we must mention the formidable rivalry with the principal institution of recent years maintained by bill brokers. Whilst their technical employment is the manipulation, as experts, of bills on behalf of others, the work of such brokers has for several years past become more and more that of bankers.⁴ They now accept deposits and take up money on loan, and besides discounting bills or notes and re-discounting them at the Bank of England, they make advances and invest in Government securities.⁵

§ 218. In Part I. reference was made to the scale upon which British trade is done with borrowed capital. "In every district," writes Bagehot, "small traders have arisen who dis-

¹ The amount of bills, cheques, &c., cleared in the year 1890 was £7,801,048,000, already about double of that for the year 1870. In the year 1891 the figures shrank to £6,847,506,000.

² Other funds are raised by note issues (*infra*) and the drawing of bills, as those of country banks on their London agents.

³ LAVELEYE, p. 218.

⁴ The public mind was painfully impressed by this in 1866, when the failure of Overend, Gurney, & Co. produced a serious crisis. (Cp. § 233 *u.*)

⁵ *Infra*.

count their bills largely, and with the capital so borrowed harass and press upon, if they do not eradicate, the old capitalist.”¹ Newmarch estimated that 86 per cent. of English bills are discounted; that is, that only 14 per cent. of the bills taken by our traders in payment for their sales are held by them, or their bankers for them, until such bills mature. A man by discounting his bills is enabled to sell on credit, and yet have the use of his money.

Brokers buy bills when they are likely to rise in price, and sell when they are likely to fall.

Bankers’ (Brokers’) discount, as explained in *Manuals of Arithmetic*, differs from mathematical discount, which would be computed on the ‘present value,’ whereas conventional discount is calculated upon the ‘face value,’ in other words, what the bill will ultimately realise. This is to the advantage of the discounter, who thereby obtains interest on the amount retained by him in addition to that upon the whole amount for which the bill is drawn: by lending to another person the fraction so retained he can make interest on it twice over.

When a bill that a banker has discounted is ‘taken up,’ or paid, before it is due, an allowance is made to the acceptor in respect of the unexpired term, which is called ‘rebate.’

§ 219. Advances are usually made only to the bank’s own customers in the form of ‘credits,’ upon which the borrowers can draw. These loans are granted upon security² lodged

¹ *Lombard Street*, p. 8. He shews that, through excessive returns, the new class of traders can lower prices, and that in modern English business there is a bounty on trading with borrowed capital. During a parliamentary discussion in 1890, Sir A. Rollit called attention to the ‘unjust competition’ which had aided over-production in bringing about the depression of trade from 1874 onwards.

² This is usually called ‘collateral,’ as additional to the principal security, which is the character and means of the borrower. Bills of exchange, stock, bills of lading, and policies of insurance, are common forms of collateral security.

by the customer, but may also be 'open' credits,¹ grounded on the good faith alone of the customer, and so without 'cover,'² taking, perhaps, the form of an overdraft.³ When the money is paid over at the time of the advance, such an advance is called a 'fiduciary loan.' Advances made for prescribed periods are technically 'short loans,'⁴ whilst those granted for no specified time, or not repaid at the time stipulated, are usually termed 'open loans.'

A large part of the loaning business of banks in London and other chief centres of foreign trade is connected with *produce*, advances upon which are designated 'documentary credits.'⁵ Let us suppose a consignment to be made of wool, shipped from Melbourne to London. When the vessel is loaded, and the bills of lading have been signed, the shipper takes his bill of lading, together with the policy of insurance, to his banker, and, upon endorsing these to the latter and signing a 'letter of hypothecation,' receives from him an advance. The documents are sent by the colonial banker to the London banker, who acts as his agent. Upon the arrival of the ship at London the shipper's correspondent gives an acceptance⁶ to the London banker in exchange for the bill of lading held by the latter, and after paying the freight he obtains delivery of the goods to him at the dock where the ship is discharged. He then instructs a wool broker to sell them, and upon receipt of the proceeds he discharges the bill held by the London banker. The case supposed illustrates the service rendered by bankers to the foreign trade of the country.

¹ Cp. § 86 n. ² *Ohne Deckung; à découvert.*

³ London bankers, however, are averse to overdrafts.

⁴ Such are the advances usually made by London bankers. As to 'call money,' see next section.

⁵ Transactions of this kind fall under the *Kontokorrentgeschäft* of German banking. (ROTHSCHILD, vol. i. p. 399.)

⁶ *Traite documentaire* in French.

§ 220. The following is a table of rates transcribed from a money article :¹

DISCOUNT.		Per ct.	MONEY.		Per ct.
Bank rate		2	10 day B'k of Egl'd loans		—
3 mos. Bank bills		$\frac{3}{4}$ $\frac{7}{8}$	Bankers' deposit rate . .		1
6 mos. Bank bills		$1\frac{1}{4}$	Brokers' deposit rates . .		$\frac{1}{2}$ $\frac{3}{4}$
3 mos. fine trade bills . .		$1\frac{1}{2}$	7 day market loans . . .		$\frac{1}{2}$
6 mos. fine trade bills . .		2	Day-to-day money		$\frac{1}{2}$

The Bank of England rate of discount shewn here is, to use the language of the journal from which the extract is taken, "the low-water mark of business and banking activity," indicating great depression of money-rates. Its rate for advances is usually one per cent. more than the discount rate. The rates following the first quotation are those of the 'open market.' 'Day-to-day' money is otherwise spoken of as 'call money,' being reclaimable at any moment, although by custom repaid any time during the day on which notice is given in the forenoon.

§ 221. A bank's investments in Stock Exchange securities will generally be in the Funds, such as 'Consols,' for the sake of rapid realisation.

§ 222. Bankers sometimes combine with banking proper what is called 'finance banking,' or the management of Government loans, issued by them as agents, which they may buy or not,² and 'underwriting' industrial undertakings; some also combining dealings in produce with those in money, so as to be 'merchant bankers.'³ The latter practice, happily,

¹ *Standard*, 27th May, 1892. Cp. table given below, same date, of foreign rates (§ 251).

² The Bank of England, although it may issue a loan, never buys it, is never responsible for it.

³ Such are Messrs. Rothschild Brothers and Baring Bros. and Co. (Limited). The reader of Byron may remember his allusions to the great influence in public matters of these famous houses. (*Don Juan* and *Age of Bronze*.) The disastrous effect upon business in general of ill-advised undertakings of such houses received illustration in the recent Baring collapse. (1890.)

is not so common in England as elsewhere. Speculation in produce, just as that in stocks, and banking business as understood in this country, do not sort well together.

§ 223. London banks in general are banks of deposit, of discount and agency; country banks, of deposit and discount. The latter remit money to other parts of the provinces, as well as to foreign countries.¹ Some are also banks of issue. To such banks we must next direct the reader's attention.

§ 224. In turning to banks of **issue**,² and to the consideration of paper currency,³ we have now to examine the characteristics of bank notes⁴ as money current among all classes of the community.⁵ The convenience of paper, as compared with metallic, money in respect of lightness would sufficiently recommend its adoption; hence we find such currency in all civilised countries.

As ordinarily employed in statutes,⁶ the expression 'bank notes' means 'country notes' issued by certain provincial banks, in distinction from 'Bank of England notes.' Country notes are not redeemable in London. Since the year 1829 the minimum amount sanctioned by law for which a note can be issued in England and Wales is Five Pounds,⁷ but the highest amount represented by any—of the Bank of England—is One Thousand Pounds. All the notes of the Bank of England have been legal tender in England and Wales since the 1st August, 1834; they have not this

¹ Cp. § 97, above.

² *Zettelbanken*; *banques d'émission*. Our 'issue' is technically applicable to provincial joint-stock banks alone. (BITHELL, *s. v.*)

³ *Papierwährung*; *papier monnaie*.

⁴ Cp. § 89, above.

⁵ Bank of England notes are distinguished from others in being legally part of the country's currency. They are not subject to the Statutes of Limitation, but country notes, like other promissory notes, are governed by those statutes.

⁶ *e.g.*, the Bank Charter Act (1844), § 28.

⁷ Some economists favour the re-issue of £1 notes, to strengthen the reserve of gold; but Mr. Goschen's plan to carry out this proposal has not met with favour from the banking community.

character in Scotland, Ireland, and the Australian colonies. If a bank note be lost, its payment can be 'stopped' by notice given to the bank.

§ 225. In all healthy national currency paper money should be 'convertible'¹ into metallic money on demand, and not forced by the Government on the people as 'inconvertible,'² an expedient to which the British Government had to resort for more than twenty years from 1797. Paper money under such circumstances becomes 'depreciated.'³ Thus in the year 1810 bank notes had to be given of the nominal value of one guinea and a quarter for one gold guinea. Gold was thus at a premium, or what is called in some foreign countries 'agio.'⁴

A most important question then is, how to secure the convertibility of paper money, and divergence of opinions as to the regulation of the currency has been manifested in those of writers of the currency school and the banking school respectively, as to which we must refer the reader to the pages of Mr. J. S. Mill.⁵ Effect was given to the former by Sir R. Peel's Bank Charter Act of 1844, the provisions of which shall be set out in the next lesson.

§ 226. We may here bring to the reader's notice another distinction between banks, according as they are *private* or *joint-stock*.⁶ The earliest English banks were of the first kind; and down to the year 1826 there was but one joint-stock bank in England, the institution of world-wide celebrity which, although not a State bank, bears the name of the Bank of England.

¹ *Einlöslich*; *remboursable*.

² *Uneinlöslich*, *Zwangcours*; *non-remboursable*, *cours forcé*. See MILL, bk. iii. ch. 13.

³ *Gesunkene Papierwährung*; *dépréciation*.

⁴ *Infra*.

⁵ MILL, iii. ch. 24.

⁶ Banks of issue in this country are all subject to unlimited liability. (§ 35)

LESSON XXV.

BANKING—(Continued).

Supremacy of the Bank of England—Its History—Operations of the Bank
—The Reserve—Bank Return—Profits of the Bank.

§ 227. "IN the City you can put your finger on one spot where the pulse of the world is said distinctly to beat. . . . The centre of the world is the *Bank of England*, in Thread-needle-street."¹ The institution of which a recent writer has thus spoken not only regulates our own money market, but exercises an ever appreciable influence over all the great European and American banks in particular.² For the causes of its dominance the reader is referred to the works of Mr. Goschen³ and Mr. Walter Bagehot.⁴ In another lesson, when dealing with financial crises, we shall have something to say about the support this great Bank gives to the national credit.

§ 228. The early history of this bank has been told, in his most interesting style, by Lord Macaulay.⁵ The original charter was granted in 1694 in pursuance of a proposal made by William Paterson, a Scotch merchant. The credit of the

¹ See article on 'England,' in the *Century Magazine*, November, 1882. Cp. GILBERT on 'Banking,' pt. ii. sect. 1, or CHAMBERS'S *Information for the People*, p. 493.

² London is the 'clearing house of the world.' Nearly all the foreign trade of the United States alone is settled either through England or France.

³ *Theory of the Foreign Exchanges*, pp. 32-37.

⁴ *Lombard Street*, pp. 95-100.

⁵ *History of England*, vol. ii. pp. 479 ff.

Crown in this connection had been impaired by the acts of Charles I. and Charles II. James II. only made matters worse, and this hampered William III. in his operations against Louis XIV. on the Continent. King William had been obliged to solicit the assistance of the London Common Council in raising money amongst the burgesses upon the credit of the land tax, and Paterson conceived it was possible "to save the ministerial people the disgrace of stooping so frequently to such solicitations." His scheme was embraced by Montagu, the Chancellor of the Exchequer, had powerful support in the City, and, after being thoroughly discussed by the Privy Council, was adopted. Subscriptions were invited for a loan to Government of £1,200,000 at about 8 per cent. interest,¹ taken up in a few hours by forty London traders. Their political sympathies were enlisted by the leaders of the Whig party, who fostered the continued exclusion of the Stuarts. By the Act of 1694² incorporating the Bank, it was founded under the name of 'the Governor and Company of the Bank of England.'

In return for the service rendered by the first proprietors to the Government of the day, the Bank was empowered from the first to issue notes, limited to the amount of its capital, an arrangement which continued to the year 1711, from which time down to the year 1844 it was allowed an unlimited issue. In 1696 it experienced embarrassment, partly from the dislocation of business caused by the failure of a rival institution set up by the landed interest and called 'the Land Bank,' and partly by the opposition offered to the success of the Bank of England itself by its rivals the goldsmiths. It was, however, soon rehabilitated through the energy of the political party

¹ At the beginning of the reign of George I. this was reduced to 5 per cent., and towards the end of that of his successor, to 3 per cent. The capital continued to increase until in 1816 it reached the permanently fixed amount of £14,553,000. See 'Bank Return' below.

² 5 and 6 William and Mary, c. 20.

with which the management was identified. By an Act of Anne (1709) it acquired a definite monopoly as a joint stock bank, which the Bank retained unbroken down to the reign of George IV.

§ 229. Down to the year 1759 the Bank issued no note for an amount less than £20; then until 1793 notes were circulated for amounts under £5; and in the last mentioned year five-pound notes became current. Three years afterwards the Bank was in throes. The drain of bullion caused by the war had forced many country banks to suspend payment, and there was a 'run' upon the Bank through fear of a French invasion. On the 25th February, 1796, its 'rest,'¹ or reserve, had fallen to £1,272,000. The Privy Council on the following day issued an order enjoining its suspension of cash payments until the sitting of Parliament, and then Pitt's Bank Restriction Act was passed confirming such order. The Bank was thereby prohibited from paying cash for any amount beyond 20s. By the month of June in that year its notes had depreciated 14 per cent.² In the following year it began to issue £1 notes. The forced currency continued down to the year 1819 absolutely; by the 1st May, 1823, cash payments had been fully resumed.

§ 230. In 1825 came a further crisis for the Bank. The liability on its notes in circulation was at that time £20,000,000, against which it had coin and bullion for about only £1,000,000. The issue of some £1 notes, the existence of which had been forgotten, but was discovered most opportunely, saved the Bank. Having accomplished its object, the circulation of such notes was in the next year prohibited, and by the year 1829 only notes for £5 were issued, as ever since.

§ 231. The Bank's monopoly as a joint-stock bank, that is, an association of more than six proprietors, was broken by

¹ See remarks below on a 'Bank Return.'

² In the year 1813 the price of gold was £5 13s. an ounce, that is, at a premium of 40 per cent. (Cp. § 74.)

an Act of 1826,¹ which sanctioned provincial joint-stock banks operating² outside a radius of sixty-five miles from London ; and further, in 1833,³ by a measure in favour of joint-stock banks in the Metropolis, subject, however, to the Bank of England's exclusive right to issue bills or notes on demand within the area just mentioned.

§ 232. The Bank had a further strain in the years 1837 and 1838, but we pass on to 1844, when the Bank Charter Act⁴ was passed, the chief object of which was to divest the Directors of the Bank of England of the regulation of the currency. The Act, which is still in operation, directs that the issue by the Bank of England of promissory notes should be separated, and thenceforth kept wholly distinct from the general banking business of the Governor and Company, and a new department should be created, described as 'the Issue Department.'⁵

Securities to the value of £14,000,000 were to be transferred, appropriated, and set apart by the Governor and Company to the Issue Department. Of this sum the debt due by the public to the Bank, viz., £11,015,000,⁶ should be deemed a part ; and the Banking should make over to the Issue Department so much of the gold coin and bullion and of the silver bullion held by the former which was not required by it ; and the Issue should deliver to the Banking Department such an amount of notes as, together with those in circulation, should be equal to the aggregate amount of securities, coin and bullion so appropriated. It should not be lawful to issue notes to the Banking Department or to any

¹ 7 Geo. IV. c. 46.

² With note issues like private country banks.

³ 3 and 4 Will. IV. c. 98.

⁴ 7 and 8 Vict., c. 32.—This and the above cited statutes may be seen in CHITTY'S *Statutes of Practical Utility*, ed. by Lely, vol. i ; the Bank Charter Act at pp. 312 ff.

⁵ Sect. 1.

⁶ It has stood at this sum since the year 1835.

persons save in exchange for other notes or for gold coin or bullion received or purchased for the Issue Department.¹

The silver bullion retained in the Issue Department shall not exceed one-fourth part of the gold coin and bullion held by it.²

All persons may demand of the Issue Department notes for gold bullion at the price of £3 17s. 9d. per ounce of standard gold.³

If any bank having at the time of the passing of the Act a note issue should thereafter become bankrupt or discontinue such issue, this shall entirely lapse, so as to be incapable of renewal;⁴ but the Privy Council in such case may authorise the Bank of England to increase its own issue to the extent of two-thirds of that which has so lapsed.⁵

The issues of banks other than the Bank of England, and unsecured, should be regulated by the average of the issues during twelve weeks preceding the 12th April, 1844; and weekly returns should be made by the Bank of England and all other banks to the Commissioners of Taxes whose licence should be renewed annually.⁶

Note issues shall be confined to banks having this privilege at the time of the passing of the Act.⁷

§ 233. The limit of £14,000,000 spoken of in the last section represented two-thirds of the Bank of England's issue at the time. The practice of the Bank had been to retain one-third of their resources to meet probable daily requirements, and this is still done by provincial banks. But the great strain put on our Money Market by the Baring crisis of 1890 made manifest that no sufficient means had to that time been employed in England of securing a strong reserve against deposit liabilities. The American law, on the other hand,

¹ Sect. 2.

² Sect. 3.

³ Sect. 4. (Cp. § 74 above.)

⁴ Sect. 12.

⁵ Sect. 5.—The amount as augmented is now about 17 millions.

⁶ Sects. 13, 22.

⁷ Sect. 10.

requires a minimum reserve of 25 per cent. In Germany a check is put upon issues by the Imperial Bank beyond a certain limit by the imposition of a tax.

The Bank Charter Act has been thrice suspended in times of crisis (1847, 1857, 1866) to enable the Bank to contract its specie payments. On the last occasion the Bank reserve had fallen to three millions.¹

§ 234. The reader should now clearly apprehend the operations of the Bank of England. These are of a three-fold character, with reference, that is to say, (1) to the circulating medium, (2) to the Bank's transactions with the Government, (3) to its business with the mercantile community. The second of these occasions the existence of a third branch, the *Stock* Department, which superintends the National Debt and other public loans guaranteed by the State. In the offices allotted to this department are kept the ledgers which register the names of stockholders and transfers of stock; here also the periodical dividends on such stocks are paid. So that the Bank of England performs all ordinary banking functions together with some business it shares with no other English bank.

§ 235. Of the *Issue* Department we need here only further say that it is bound to give gold coin for any of its notes when presented for that purpose, which must then be cancelled.

§ 236. In the *Banking* Department the various sums collected by the officers of the Revenue, &c., are paid into the credit of the respective accounts kept there by the Government, and the moneys required by the different services are paid to them from such accounts. So much for its Government business.

As regards the general public, any person may open a 'drawing account' upon the same conditions and in like manner as a 'current account' at other banks. No ac-

¹ The 'run on the Bank' was occasioned by the failure of Overend, Gurney & Co., with liabilities amounting to £100,000,000. (Cp. § 217 n.)

count may be overdrawn,¹ and no interest is allowed on deposits.²

Persons having some recognised mercantile status, and known to the Directors, may also open 'discount accounts,' the Bank taking from them short bills³ that are first-class paper. A considerable number of bills are re-discounted for brokers. The percentage charged is usually the published official rate.⁴ When there is a 'tight' money market, "raising the rate indicates that the other remedies are exhausted, and the reserves must now be protected."⁵ Another way the Bank has of controlling the market is to raise money temporarily upon its own securities, thus getting possession of some of that which is loanable.

Discount business not being made by the Bank of England, as by other institutions, its principal object, a rate of interest is charged upon loans which is usually higher than that of such other banks. The competition of these with the Bank of England renders it necessary for the latter to check drains of money, which are accordingly the chief cause of augmentation of the rate.

More or less of a 'pinch' is periodically recurrent. Thus there is the 'spring drain,' when agricultural districts are in special want of money, and Scotch banks draw supplies from the Bank of England; and the 'autumn drain,' when gold goes to the United States to adjust the balance of trade

¹ The other London banks likewise disapprove of overdrafts, allowing them only if collateral security be given.

² The Bank formerly allowed interest. See FRANCIS, *History of the Bank of England*, vol. i. p. 65.

³ The limit at present is, bills which have not more than fifteen days to run.

⁴ Any change in this is made at the weekly meeting of the Directors, and may be learnt by the public from a Friday morning's newspaper. The rate fluctuates more at London than any other European market. For the influence it exercises on the foreign Exchanges, see below.

⁵ GOSCHEN, *Foreign Exchanges*, p. 134.

'unfavourable' to us through our large importation of grain and cotton. The first Bank Return in October generally exhibits a reserve diminished by about two millions.¹ All that the Bank can do at any time in the conservation of gold is to quote prohibitive prices for the sale of foreign coin or bullion.

§ 237. We may now give a sample of an ordinary Return, as required by the Bank Charter Act.

BANK OF ENGLAND.

*AN ACCOUNT, pursuant to the Act 7 and 8 Vict., cap. 32,
for the week ended Wednesday, May 25, 1892.*

ISSUE DEPARTMENT.

Notes issued . . .	£40,852,905	Government Debt . .	£11,015,100
		Other Securities . .	5,434,900
		Gold Coin and Bullion	24,402,905
		Silver Bullion . .	—
	£40,852,905		£40,852,905

BANKING DEPARTMENT.

Proprietors' Capital .	£14,553,000	Government Securities . . .	£11,256,001
Rest . . .	3,109,097	Other Securities . .	26,911,652
Public Deposits (Ex- chequer, Savings Banks, Com. Nat. Debt, and Div. Ac- counts) . . .	6,577,944	Notes . . .	15,322,735
Other Deposits . .	30,336,910	Gold and Silver Coin	1,275,789
7-Day and other Bills	189,226		
	£54,766,177		£54,766,177

May 26.

F. MAY, *Chief Cashier.*

Here, under the account of the Issue Department, it should be noted that the 'active circulation' of notes, obtained by

¹ The return after about three weeks of the money and notes so withdrawn illustrates the functions of the Bank as a circulator of money. On this subject see the *Statistical Journal* for 1866, p. 242 (paper by Prof. JEVONS), and also the volume for 1870, pp. 217 ff.

deducting the notes in hand as shewn under 'Banking Department' from the 'notes issued,' was about $25\frac{1}{2}$ millions. 'Other securities' among the assets were first-rate securities approved by the directors. It will be observed that their value added to the amount of the Government Debt makes up the approximate $16\frac{1}{2}$ millions noted above; and this, combined with the 'gold coin and bullion,' forms the guarantee for the redemption of every bank note which may be presented for payment.

Turning to the *Banking* Department, it may be explained that 'Rest' is equivalent to 'Balance' as used in other accounts, and represents the undivided profits kept in reserve. The 'Public Deposits' include moneys paid in by the Inland Revenue and Customs amongst other departments. 'Other Deposits' are in part made up of the reserves of the other banks, and the accounts of private customers of the Bank of England. 'Seven Day and other Bills' are the *Bank post-bills* mentioned in an earlier part of these lessons,¹ and outstanding Letters of Credit, &c. 'Government Securities' include Exchequer Bills and other obligations occasioned by the requirements of the Government.² Under 'Other Securities' fall the bills discounted by the Bank. The 'Notes' and 'Gold and Silver Coin' together constitute the **Reserve**, which is matter of weekly comment in the Money Articles of the newspapers issued upon Friday morning. It will be observed that the amount here was about £16,600,000, and the proportion of reserve to liabilities was nearly 45 per cent.³

§ 238. The combined business of the Bank is distributed between the Bullion, Bill, Discount, Private Drawing, Bank Stock, Consols, India, and Dividend Offices. There are country branches at Manchester, Liverpool, Birmingham,

¹ § 92 *n*.

² The other banks tender for these.

³ This was a strong reserve. The Bank reserve in the last two years has moved between thirty and forty millions. It is at present (Oct. 1899) twenty millions.

Bristol, Leeds, Plymouth, Newcastle-upon-Tyne, Hull, and Portsmouth.

§ 239. The net profits of the Bank for the half-year ending in February, 1892, were £725,028 11s. 11d., and the half-yearly dividend of interest and profit declared was 5 per cent., without deduction on account of income-tax.¹ The present price of the stock is 334-336.²

¹ The annual dividend of late years has generally been 10 per cent.

² 27th May, 1892.

LESSON XXVI.

BANKING (continued).

Bank of Scotland—Bank of Ireland—British Note Circulation—London Joint Stock Banks—London Colonial Banks—London Foreign Banks—Banks in the United States—Bank of France—German Imperial Bank—Continental and Eastern Rates.

§ 240. THE Bank of SCOTLAND was founded by an Act of the Scotch Parliament in 1695, under the corporate name of 'The Governor and Company of the Bank of Scotland.' It is regulated by the Scotch Bank Act of 1845.

The head office is at Edinburgh; there are branches throughout Scotland. Unlike the Bank of England, it allows interest on deposits. Paper money forms the bulk of the Scotch currency, and more than half of that is in £1 notes. The system of cash credits is much developed in the northern part of Britain, and is in fact characteristic of Scotch banking: it has had much to do in the creation of the wealth of the country. The net profits for the last financial year were £191,481, yielding a dividend of 12 per cent. with a bonus of 1 per cent.

Scotch banks in general are banks of deposit and of issue.

§ 241. The Bank of IRELAND, of which the head office is in Dublin, was established by an Act of Parliament of 1783, under the corporate title of 'The Governor and Company of the Bank of Ireland.' It is regulated by the Irish Bank Act

of 1845. Like the Bank of England, it allows no interest on deposits; but, like the Bank of Scotland, it issues notes for £1 and upwards, which are the chief circulating medium in Ireland. It does not grant cash credits.

§ 242. The total circulation of the United Kingdom for the four weeks ending 2nd April, 1892, was £39,170,420, in the proportion of about 25 millions Bank of England; 6 millions Scotch banks; 6 millions Irish banks; 1 million English provincial joint-stock banks; and 1 million for English provincial private banks.

§ 243. As stated in the last preceding lesson, the Bank of England was the only joint-stock bank in London down to the year 1833. About the year 1830 it was discovered that the Act of Anne, to which that bank owed its monopoly, applied to banks of issue only.¹ This led to a vast development of the deposit system, by the establishment of joint-stock banks in the metropolis.

The London and Westminster Bank led the way in 1834, followed by the Union Bank, the Joint-Stock Bank of London, and London and County Bank, within the same decade.

Deposits gravitate more and more from private to joint-stock banks, the publication of accounts by the latter increasing confidence.² Mr. Goschen has spoken of banks of the latter kind as "those great institutions, as mighty in their way as the Bank of England, and holding more deposits, and whose position is of such vast importance to every trader,

¹ It was always clear of course that London private banks were in no wise subject to that Act; but they ceased to be banks of issue when they adopted the *cheque* system, in or about the year 1780. The National Provincial Bank of England by fixing its headquarters at London lost its right of issue, in accordance with the Act of 1826.

² *Bankers' Magazine*, 1859, pp. 497, 547.

manufacturer, and commercial centre of this country,"¹ and in his anxiety to strengthen the gold reserve of the country, when Chancellor of the Exchequer, he induced the principal banks to issue more frequent statements of their liabilities on deposit and current accounts, and of cash in hand and at the Bank of England, showing proportion of cash to deposits.² From such statements issued about the 31st January, 1892, by fifteen joint-stock banks including, besides those already named, Lloyds, and the National Provincial Bank, it appeared that these at the time held amongst them about 200 millions on deposit, and the proportion of cash to deposits ranged from 10 to 16 per cent.

Moreover, it would seem better that a bank should be conducted by a director than a proprietor if, as Gilbart says, "banking business resembles a game of chess, in which the player proceeds with the closest attention, but without either striving for wealth or fearing poverty."³

§ 244. The interest allowed on deposits by the joint-stock banks has generally been $1\frac{1}{2}$ per cent. under the bank rate of discount. But this rate of recent years has little influenced the value of money for short loans and those on call; hence banks have sometimes paid more for deposits than they could loan the money out for.⁴

An advance in the Bank of England rate of discount is not always effective in producing a rise in the open market rate.⁵ The bank has then had to resort to further measures indicated in

¹ Speech before the Leeds Chamber of Commerce in 1891.

² Some now do so monthly, others quarterly.

³ See further § 245 below.

⁴ There seems to be great competition among joint-stock banks for custom; hence the public convenience is now more studied. "Many are the accounts with some of the large joint-stock banks whose average balance is, say, twenty pounds." (*Bullionist*, 28th June, 1890.)

⁵ Four per cent. has been called 'the good old-fashioned rate.' Not long since a six per cent. rate used to be a signal to bankers for caution. A certain recklessness had, however, set in when the Baring crisis came in 1890.

the preceding lesson,¹ in order to influence the foreign exchanges upon London and protect the Reserve.

§ 245. Dividends of more than 20 per cent. have been paid by some of these banks in recent years, which circumstance lends them favour in the eyes of investors. It is, however, sometimes to be explained by such banks having only a small paid-up capital; and whether solidity is not sacrificed to profits must always be a grave question. The high repute of our banks nevertheless is seen in the fact that, in the general decline of quotations in the year 1890, bank shares were conspicuous for their steadiness.

By an Act of the year 1857 the principle of limited liability was extended to banks other than banks of issue. Many banks have accordingly been registered as Limited Liability Companies.²

§ 246. There are various *Colonial* and *Indian* banks established in London, most of our colonies being represented there. Thus: the Bank of British North America, the Colonial Bank (for the West Indies), the Bank of Africa, the Bank of Australasia, the Delhi and London Bank, the New Oriental Banking Corporation.³ Those which are not banking corporations⁴ are registered under the Companies' Acts. In their advertisements such banks announce that they negotiate or buy, sell and collect bills of exchange, grant

¹ Sect. 236.

² Employment in the large banks is eagerly sought for, as a certain dignity attaches to it, especially in the case of banks which, following the example of the Bank of England, require an entrance examination. The Bankers' Institute provides lectures on banking subjects, and holds examinations at the close of each course. The *Credit Foncier* in France has followed the example of the Bank of France (*infra*) in holding an examination prior to admission of any clerk to that bank.

³ See list in *Whitaker's Almanack*.

⁴ The shareholders in most of them are liable for double the amount of their shares under the permissive Act, 6 George IV. c. 91.

bills on demand, &c., make telegraphic remittances, issue letters of credit, collect dividends, and purchase or sell colonial Government and other securities.

§ 247. Besides the kinds of banks mentioned hitherto, there are in London a considerable number of *Foreign* banks, whose connection is with the Continent. Such are those of Messrs. Huth, Hambro, Schuster, with branches of the *Crédit Lyonnais* and other French banks. These banks engage in arbitrage business¹ in stocks and bills. They buy stocks here which they sell abroad, and avail themselves of every advantage to be gained by the higher rate of discounts, at one time in London, at other times abroad. Bills held by them are much bought by the discount houses.²

§ 248. Most of the banks of the *United States*³ at the present day are joint-stock banks, governed by the National Banking Law, according to which their note issues are controlled by the Treasury at Washington: they may issue notes so long as they lodge with the Treasury Government bonds of value sufficient to redeem such notes. The reserves must reach at least 25 per cent. of the deposits; that is, when the cash on hand of a bank falls under one-fourth of its deposit liabilities, it must refuse accommodation to its customers wishing to borrow.⁴

¹ See TATE, *Counting House Guide*, *passim*, and in the next lesson. The word 'arbitrage' is pronounced as in French.

² Employees in such banks will generally require good knowledge of Stock Exchange accounts and usages, and, besides acquaintance with Continental banking, a thorough knowledge of German or French as employed in business, the former language being generally emphasized.

³ As to American banks, see WALKER, *Money, Trade, and Industry*, ch. xii.

⁴ An analysis of the weekly return of the New York associated banks appears in the money articles of the London newspapers every Monday morning. According to a return made in April, 1892, the gold reserve of the United States to that time was 56 millions, against 186½ millions of paper currency redeemable in gold by the Treasury.

The so-called 'greenbacks,' dating from the commencement of the Civil War, constitute the paper currency of the United States.

§ 249. It remains for us to notice the great banking establishments on the Continent and in the East.

The *Bank of France*, founded in the year 1800, has much prestige. One of its characteristics is that, by virtue of its being by far the largest discounter of bills in the country, it manages to keep complete control over the French market. Again, unlike the Bank of England, this bank can always, when it is inconvenient to pay in gold, give silver for its notes, thus protecting the reserve by raising the price of the chief metal. The cash reserve is usually 75 per cent. of its issues. At the end of the year 1891 its note circulation was £122,000,000, as compared with £24,000,000 of Bank of England notes. It is the only French *bank* in the English sense of the word: all others add financial and general merchants' business to discounting. Those with the largest amount of deposits are the *Crédit Foncier* and *Crédit Lyonnais*.

§ 250. Something has already been said of the *German Imperial Bank* at Berlin. Like the Bank of France, it is able to prevent drains of gold by refusing to exchange the coin for its notes.

§ 251. The other principal banks of the Continent are the *Austro-Hungarian Bank*, at Vienna; the *Netherlands Bank*, at Amsterdam; the *Italian National Bank*, at Rome; the *Russian Imperial Bank*, at St. Petersburg; the *National Bank of Belgium*, at Brussels; and the *Bank of Spain*, at Madrid. Weekly returns of these, or most of them, appear in the *Economist*: that of the Bank of France also in the London morning newspapers of Friday.

The following is a specimen table of rates for money current on the principal foreign markets.¹

	Bank Rate.	Open Market.		Bank Rate.	Open Market.
Paris . . .	2½	1	Madrid . . .	5	4½
Berlin . . .	3	1½	Other Spanish		
Hamburg . . .	—	1½	cities . . .	—	5
Frankfort . . .	—	1½	St. Petersburg . . .	5½	4
Amsterdam . . .	2½	1½	Lisbon . . .	6	6½
Brussels . . .	2½	1½	Geneva . . .	3	2½
Vienna . . .	4	3½	Copenhagen . . .	4	3½
Genoa . . .	5½	3½	Stockholm . . .	6	5
Rome . . .	—	3½	Christiania . . .	5½	5
Turin . . .	—	3½	Bombay . . .	5½	—
			Calcutta . . .	3	—

In connection with Bombay and Calcutta, we may add that the paper money of India consists of Government Currency Notes, those of the lowest value being for the Company's rupees, and the national private paper money issued by the Bank of India and the Central Bank of Western India, both in Bombay.²

¹ *Times*, 27th May, 1892.

² For correspondence connected with transmission of money, see *Précis Writing*, &c., ch. vi.

LESSON XXVII.

THE FOREIGN EXCHANGES.

Classes of Foreign Bills—Pars of Exchange (*continued*)—Agio—Real Exchange—Computed Exchange—Arbitrage—Elements of Value of Bills—Course of Exchange—Specie point.

§ 252. HAVING in Part i. dealt with the exchange of money regarded simply as cash,¹ with bills of exchange in their general characteristics,² and in the present Part with discount as affecting inland bills,³ we have now only to examine the incidents of the negotiation of foreign bills; in other words, to introduce the study of the **Foreign Exchanges**.⁴

The reader, we should first say, must bear in mind that a person having to pay an account due to another in a foreign country, has the choice of (1) sending specie,⁵ (2) buying and sending to the creditor an acceptance payable in such foreign country, or (3) requesting the correspondent to draw a bill for acceptance by the debtor himself. Transmission of bullion is avoided whenever possible: the expense incurred is the greater, as it has of course to be insured, the cost of which naturally falls on the sender. As long as employment of a bill comes into consideration, the alternative of deciding to be drawn upon is adopted when the rate of exchange in the other country is the more favourable.⁶

¹ Lesson xi.

² Lesson xii.

³ Lesson xxiv.

⁴ *Auswärtige Kurse*; *changes (cours) extérieurs (étrangers)*.

⁵ Sect. 74 n.

⁶ See further in PEARCE, *The Merchant's Clerk*, pp. 36 ff.

§ 253. Foreign bills are of three kinds: (α) Trade bills, (β) Stock exchange and finance paper, (γ) banking and credit paper.¹

Trade bills are those drawn upon us in payment of imports of food and raw materials, against which may be placed the demand for remittances to pay for our exports of manufactured goods, &c., for the freight earned by our shipping, and for the commission and brokerage earned by our merchants.²

Stock Exchange and finance bills are "drawn against the securities sold, and the loans raised here for foreign accounts,³ and are remitted in payment of interest on our holdings and against the securities resold abroad."⁴

The third class of bills mentioned above arise out of banking operations which merely aim at taking advantage of favourable exchanges. Foreign bills are purchased either to be held upon the chance of a rise in the rate, or to be remitted abroad by way of creating a fund against which the the purchaser may draw.⁵

§ 254. Exchange is 'nominal' when it regards only the comparative value of the moneys of two different countries. Let us take three of the principal 'mint pars,'⁶ determining the 'short' exchange between England and the United States, France, and Germany respectively, and examples of the number of coins in each case containing the same quantity of pure gold as the English sovereign of full weight and fixed fineness.

£1	is represented at New York by	\$4.8665
£1	„ „ Paris	„ Fr. 25.2225
£1	„ „ Berlin	„ Mks. 20.4294

¹ See first lecture of Mr. G. CLARE (of Messrs. Schuster and Co.) for the Institute of Bankers, reported in the *Times*, 23rd November, 1891.

² *Ibid.*

³ See the next Lesson.

⁴ *Loc. cit.*

⁵ TATE, *Counting House Guide*, ii. pp. 113 f.

⁶ Sect. 79.

It is sometimes difficult to ascertain the 'arbitrated par'¹ between London and a country whose currency is based upon silver,² but rules for this are given in the works of Tate and other writers on *Mercantile Arithmetic*. A comparison has to be instituted between the price of gold and that of silver, which constantly fluctuates. The Eastern exchanges fall under this head.³

§ 254*a*. When silver or paper money is depreciated, there is said to be an 'agio,' or premium on gold.⁴ Where this is, for example, said to be 235 in a country having a predominant paper currency, with specie consisting of gold dollars, the meaning is that for 100 gold dollars paper must be given of the value of 235.⁵

§ 255. 'Real' (commercial) exchange is a question of the demand for and supply of bills as between two countries at a particular time. This of course is constantly fluctuating. "Every movement of the rate (except such as is occasioned by an alteration in the ratio to gold of the silver or paper currency unit) is due to changes in the proportion that the production of bills on London bears to the consumption. The greater the demand abroad, the more the exchange favours this country; and the greater the supply, the more it goes against us."⁶ When, for example, imports from the United States are in excess of our exports thither, the balance of trade will be favourable to the States; bills on London will then be cheap in New York, because of the large supply there, whilst in London

¹ Sect. 79. ² GOSCHEN, *Foreign Exchanges*, pp. 58*f*. ³ *Infra*.

⁴ The premium on gold at Buenos Ayres is daily reported in the London newspapers. See extract below.

⁵ See also § 225 above.—There is such a premium on gold at the present time in Italy and Spain; yet more in Portugal, and in Greece worst of all. Unable or unwilling to increase the taxation of their people, the several Governments have issued too much paper money. The premium on gold in India, which is about 50 per cent., of course arises from a different cause, explained elsewhere.

⁶ *The Times*, u.s.

there will be few bills on New York on offer. The result will be, a 'high exchange' and stringent money market at London, a 'low exchange' at New York.

§ 255*a*. 'Computed' exchange represents a comparison of the 'real' and the 'nominal' exchange. Should the one balance the other, the exchange will be at par¹; but if the 'nominal' exchange be, for instance, 5% in our favour, and the 'real' exchange 3% against us, the computed exchange will be 2% in our favour.

§ 256. 'Arbitrage'² is the process of determining indirect exchanges. It has a threefold application: (α) To exchange between two places not in permanent relation with each other through the medium of a third place which has a bill-connection with each; (β) to cases in which an indirect exchange is more advantageous; (γ) to countries whose communication with each other is interrupted.³

§ 257. *Cable transfers*,⁴ or telegraphic remittances, are designed to remove doubts as to the rate of exchange, and are employed chiefly by large houses trading with America, India, and China. The transfer rate is naturally higher than the bill exchange.⁵

§ 258. "The elements of value determining⁶ fluctuations in the price" of foreign bills are discriminated by Mr. Goschen⁷ as follows:—

(1) Balance of indebtedness, either in favour of or against any given country.

(2) Stringent money market.

¹ *French Reader*, § 63.

² See above, § 247.

³ See MILL, *Principles of Political Economy*, bk. iii. ch. 20, *ad fin.*; MERTEN, *Manuel de Sciences Commerciales*, p. 340; and WALKER, *First Lessons*, under "Three-cornered Exchange." (§ 127.) All exchange calculations may be made by the 'rule of three' or by the 'chain rule,' as given in, *e.g.*, WORMELL'S *Mercantile Arithmetic*.

⁴ *Telegraphische Ueberweisungen; paiements par dépêche*.

⁵ See Course of Exchange below.

⁶ That is, ordinarily.

⁷ *Foreign Exchanges*, chap. iv.

(3) Rate of interest in the country on which the bill is drawn.¹

(4) Varieties in the prevailing rate of discount.²

(5) Solvency and credit of the drawer as well as of the acceptor.

A reader desirous of working these out should do so by the help of Mr. Goschen's standard treatise.

§ 259. The last class of bills mentioned above are "affected by the credits granted by London bankers, by arbitrage and speculation, and by the demand on the part of Continental bankers for first-class London paper as an investment."³

§ 260. Having now, it is hoped, gained a general idea of this subject, the student should carefully analyse the extracts which we are about to give from journals of recent date.

FOREIGN RATES OF EXCHANGE ON LONDON.⁴

	Latest Dates.	Rates of Exchange.	Usance.
Paris . . .	June 26 ...	25'16	... Cheques.
Amsterdam . . .	— 26 ...	12'05	... Short ⁵ .
Berlin . . .	— 26 ...	20'34½	... „
Do. . .	— 26 ...	20'30	... 3 mos.
Hamburg . . .	— 26 ...	20'18	... „
Frankfort . . .	— 26 ...	20'34	... Short.
Vienna . . .	— 26 ...	117'00	... „
St. Petersburg . . .	— 26 ...	86'65	... 3 mos.
Constantinople . . .	April 24 ...	110'0	... „
Madrid . . .	— 24 ...	26'54	... „
New York . . .	June 26 ...	4'84½	... 60 dys. st.
Rio Janeiro . . .	— 26 ...	22½	... 90 dys. st.
Buenos Ayres . . .	— 3 ...	48½ ½	... 90 dys. st.
Do. Pm. on Gld. . .	— 26 ...	138	... „

¹ This causes English bills to be a favourite investment abroad. (p. 136.)

² An advance in the Bank of England rate generally sends up the Continental exchanges on London, which sometimes rise from mere expectation of a rise in our Bank rate.

³ *The Times*, u.s.

⁴ Taken from the *Economist* of 28th June, 1890.

⁵ Here, as elsewhere in the list, seven days; reckoning the extra day for sighting, it is really eight.

Montevideo	.	.	—	4	...	51'43	...	90 dys. st.
Alexandria	.	.	April	11	...	97 $\frac{3}{4}$	...	3 mos.
Do.	.	.	—	11	...	98	...	Light.
Melbourne	.	.	June	10	...	} $\frac{1}{2}$ d. $\frac{1}{2}$ d. p. sg. ¹...	...	60 dys. st.
Sydney	.	.	—	10	...		...	„
Adelaide	.	.	—	10	...		...	„
Calcutta	.	.	—	27	...	} 1/6 $\frac{1}{8}$ d.	...	Telegra'.
Bombay	.	.	—	27	...		...	Transf'r.
Hong Kong	.	.	—	27	...	3/5d.	...	4 m. st. } ²
Shanghai	.	.	—	27	...	4/9 $\frac{1}{2}$ d.	...	„ }

§ 261. The following extracts, of later date,³ afford scope for comparison of contemporaneous rates at foreign bank places, and at London.

“EXCHANGES ON LONDON (telegraphed from)—Paris, 25.17 $\frac{1}{2}$; Berlin, eight days,⁴ 20.39 $\frac{1}{4}$; Frankfort, 20.40; Vienna, 119.50; Hamburg, three months, 20.34; Amsterdam, 12.07*d.*; Shanghai, 3*s.* 11 $\frac{1}{4}$ *d.*; St. Petersburg, three months, 95.15; Rio Exchange, 11 = 3.16*d.*; Italy, 25.97*d.*; Portugal, 41 $\frac{1}{2}$ to 42*d.*; Spain, 28.80.

“On 'Change⁵ bills on Germany, Holland, and Belgium, were in strong demand at the rates current on Thursday last of the paper exchanges, Spanish declined, while Russia and Portuguese currencies increased in value. Cheques on Paris were dealt in at 25.17 $\frac{1}{2}$ to 25.18 $\frac{1}{2}$, and on Germany at 20.41 to 20.43.

“Amsterdam and Rotterdam, 12.1 $\frac{1}{4}$ to 12.2 $\frac{1}{4}$; ditto, three months, 3 $\frac{1}{4}$ to 3 $\frac{3}{4}$; Antwerp and Brussels, three months, 25.31 $\frac{1}{4}$ to 25.36 $\frac{1}{4}$; Hamburg, 20.50 to 20.54; Berlin and German Bank Places, 20.50 to 20.54; Paris, cheques, 25.16 $\frac{1}{4}$ to 25.21 $\frac{1}{4}$; Paris, three months, 26 $\frac{1}{4}$ to 31 $\frac{1}{4}$; Marseilles, three

¹ This is the Colonial exchange percentage. For telegraphic transfers either way $\frac{1}{2}$ per cent. is generally added to the current rate.

² Telegraphic transfers are also employed. (§ 263.)

³ From the *Daily News* of 25th May, 1892.

⁴ *Supra.*

⁵ See *Crittenden Commercial Arithmetic*, p. 177.

months, $26\frac{1}{4}$ to $31\frac{1}{4}$; Austria, three months, $12.07\frac{1}{2}$ to 12.10 ; Petersburg, three months, $25\frac{1}{8}$ to $25\frac{3}{8}$; Moscow, three months, 25 to $25\frac{1}{2}$; Genoa, Leghorn, Naples, &c., three months, $26.21\frac{1}{4}$ to $26.26\frac{1}{4}$; Spain, three months, $40\frac{7}{8}$ to 41 ; Lisbon, three months, $40\frac{7}{8}$ to $41\frac{1}{8}$; Oporto, three months, $40\frac{7}{8}$ to $41\frac{1}{8}$; Copenhagen, three months, 18.33 to 18.37 ; Christiania, three months, 18.35 to 18.39 ; Stockholm, three months, 18.35 to 18.39 .

"BUENOS AYRES, MAY 23rd.—The premium on gold has advanced to 235 per cent.¹—*Reuter*."

§ 262. We shall next exhibit a report² as to

AMERICAN EXCHANGES.

"Foreign exchange was quiet and firm. The nominal rate for demand was advanced half a cent. to 4.89, while that for sixty days³ was unchanged at 4.85. Actual business was done at $4.84\frac{1}{4}$ a $4.84\frac{1}{2}$ for sixty-day bills, 4.88 a $4.88\frac{1}{4}$ for demand, $4.88\frac{3}{4}$ a 4.89 for cables, and 4.83 a $4.84\frac{1}{4}$ for commercial. In Continental exchange Paris francs were quoted at $5.20\frac{5}{8}$ for long, and $5.17\frac{1}{2}$ for demand;⁵ reichsmarks at $94\frac{7}{8}$ for sixty days, and $95\frac{3}{8}$ for demand;⁶ and guilders at $40\frac{1}{8}$ for sixty days, and $40\frac{3}{8}$ for demand.⁷

"Exchange on New York was quoted to-day as follows:—
"Charleston, buying $\frac{1}{8}$ discount, selling par; Savannah, buying $\frac{1}{8}$ discount, selling $\frac{1}{8}$ discount a par; St. Louis, 25 a 50 discount; New Orleans, commercial 125 discount, bank par; San Francisco, sight 10 premium, telegraph 15 premium; Chicago, 40 discount; Boston, 10 a $12\frac{1}{2}$ discount; Cincinnati, 50 discount."

¹ See § 254a.

² From the *New York Herald*, 11th September, 1889. Cp. *Crittenden Arithmetic*, pp. 169 ff.

³ This is practically seventy-two to seventy-five days, because of the time taken in transmission.

⁴ That is, *ad*.

⁵ See *Crittenden Arithmetic*, p. 178.

⁶ *Ibid*. p. 179.

⁷ *Ibid*. p. 180.

§ 263. The last selection shall be in regard to our Eastern trade.¹

EXCHANGE RATES FROM THE EAST.

Calcutta, transfers	.	.	.	1s. 3 $\frac{7}{8}$ d. per rupee.
Bombay, transfers	.	.	.	1s. 3 $\frac{7}{8}$ d. per rupee.
Hong Kong, four months bank bills	.	.	.	2s. 10 $\frac{1}{2}$ d. per dollar.
Ditto transfers	.	.	.	2s. 9 $\frac{5}{8}$ d. per dollar.
Shanghai, four months bank bills	.	.	.	3s. 10 $\frac{1}{2}$ d. per tael.
Ditto transfers	.	.	.	3s. 10 $\frac{1}{2}$ d. per tael.
Japan, four months bank bills	.	.	.	2s. 10 $\frac{1}{2}$ d. to 2s. 10 $\frac{1}{2}$ d.
Straits, four months bank bills	.	.	.	2s. 10 $\frac{1}{2}$ d. per dollar.

OUTWARD RATES—BANK-BUYING RATES.

	60 days.	30 days.	Demand.
India . . . per rupee, 1s. 2 $\frac{3}{4}$ d. ...	1s. 3 $\frac{1}{8}$ d. ...	1s. 3 $\frac{1}{8}$ d. ...	1s. 3 $\frac{1}{8}$ d.
Hong Kong . . per dollar, 2s. 9 $\frac{1}{2}$ d. ...	2s. 9 $\frac{1}{2}$ d. ...	2s. 9 $\frac{1}{2}$ d. ...	2s. 9 $\frac{1}{2}$ d.
Japan . . . per dollar, 2s. 9 $\frac{1}{2}$ d. ...	2s. 9 $\frac{1}{2}$ d. ...	2s. 9 $\frac{1}{2}$ d. ...	2s. 9 $\frac{1}{2}$ d.
Straits . . . per dollar, 2s. 9 $\frac{1}{2}$ d. ...	2s. 9 $\frac{1}{2}$ d. ...	2s. 9 $\frac{1}{2}$ d. ...	2s. 9 $\frac{1}{2}$ d.
Shanghai . . per tael, 3s. 9 $\frac{1}{2}$ d. ...	3s. 9 $\frac{1}{2}$ d. ...	3s. 9 $\frac{1}{2}$ d. ...	3s. 10d.

BANK BILLS UPON INDIA—BANK-SELLING RATES.

60 days	.	.	.	per rupee, 1s. 3 $\frac{1}{4}$ d.
30 days	.	.	.	per rupee, 1s. 3 $\frac{1}{4}$ d.
Demand	.	.	.	per rupee, 1s. 3 $\frac{3}{4}$ d.

Tenders for Rs. 5,000,000 in bills and telegraphic transfers on India were received to-day at the Bank of England. The amounts tendered for are as under :

BILLS.

Rate.	Tendered. Rs.	Accepted. Rs.	Percentage.
1s. 3 $\frac{1}{4}$ d.	77.10.000	41.87.000	54
1s. 3 $\frac{3}{4}$ d.	90.00.000	—	—
1s. 3 $\frac{5}{8}$ d.	15.00.000	—	—
Total bills	1.82.10.000	41.87.000	

¹ Extracted from the *Manchester Guardian* of 12th May, 1892. In the *Times* rates are given besides for Rangoon, Batavia, and Manilla.

TELEGRAPHIC TRANSFERS.

Rate.		Tendered. Rs.		Accepted. Rs.		Percentage.
Is. 3½d.	.....	16.00.000	.....	8.13.000	.....	54
Is. 3¼d.	.....	8.00.000	.....	—	.....	—
Total transfers		24.00.000	.....	8.13.000		
Grand total		2.106.10.000	.....	50.00.000		

The amounts allotted were :

Bills on Calcutta . . .	22.25.000	.....	Is. 3 25d.
Bills on Bombay . . .	11.74.000	.....	Is. 3.25d.
Bills on Madras . . .	7.88.000	.....	Is. 3.25d.
Transfers on Bombay . . .	5.42.000	.....	Is. 3 28d.
Transfers on Madras . . .	2.71.000	.....	Is. 3.28d.
Total . . .	50 00.000		

§ 264. 'Specie point,' otherwise spoken of as 'gold point,'¹ 'bullion point' is that figure above or below the mint par at which it becomes more economical to export bullion than to buy a bill. As between London and Paris, the expense of sending gold from either place to the other is $\frac{1}{2}$ per cent. "When the French exchange is at 25·10 it pays to send gold from England to France, and when the exchange is at 25·35 it pays to send gold from France to England."² That is, taking the above given mint par as 25·22½, there is 1 per cent. or 25 centimes between the two limits, or $\frac{1}{2}$ per cent. either way. Similarly the specie points³ between

London and Berlin are mks. 20·31 and 20·53,

London and New York are \$4·83 and 4·90.

It is by the price of short bills that the specie point is determined : they best indicate the position of trade.⁴

¹ In German it is regularly spoken of as *Goldpunkt*.

² SEYD, *Bullion and Foreign Exchanges*, p. 394.

³ As given by TATE, *Counting House Guide*, ii. p. 139. The 'gold points' of the principal exchanges appear in the *Economist* and *Bullionist* of each week.

⁴ GOSCHEN, pp. 88 f.

LESSON XXVIII.

STOCKS AND SHARES.

Constitution of the London Stock Exchange—Dealers and Brokers—The Settlement—Bulls and Bears—Backwardation and Contango—Options—Classification of Listed Securities—Funded and Unfunded Debt—Issuing a Loan—Floating a Company—Dividends—Liquidation—Influence of the Stock Exchange on Trade—Market Reports—Wall Street—Continental Bourses.

§ 265. HAVING in Part I. just touched upon the business of the Stock Exchanges as a part of the general Money Market, we have now to set forth this subject in detail.

Transactions in stocks and shares, other than of a private character, began in England with the state of things inaugurated by the foundation of the Bank of England. The operators at first met on the Royal Exchange ; then in 'Change Alley ; whilst the present London Stock Exchange, in Throgmorton Street, dates from the beginning of the present century. The Exchange, as others of its kind, is, it will be remembered, a regulated Company,¹ composed of shareholders or proprietors and members or subscribers, and is managed by a committee. A commission of 1878 recommended its incorporation, but the proposal did not gain favour, and has not yet been acted upon.

§ 266. The members (subscribers) are either *dealers*, called

¹ Sect. 35.

'jobbers,'¹ or *brokers*.² The latter are agents for the public, whilst the dealers negotiate with the brokers alone, buying of or selling to them.³ The dealer 'makes' a price at which he will buy and another at which he will sell. His profit or 'turn,' as it is called, is a small fraction, usually $\frac{1}{8}$ per cent.; thus he will buy consols at, say, 95 to sell again at $95\frac{1}{8}$, and quotes these prices accordingly to any broker inquiring. He is not, however, bound to go beyond £1,000. By usage all transactions are verbal⁴; but every broker keeps a book in which all his transactions are recorded. The 'client' receives from his broker a 'contract note,'⁵ which is a 'bought note' or a 'sold note' as the case may be. A stockbroker, like brokers in general, is by law required to exhibit the carefulness of an ordinary man of business, which of course means a good deal.⁶

§ 267. All transactions are for the fortnightly settlement,⁷ which extends over three days.

The first day is called the 'Contango (continuation) Day,' when speculative business⁸ is cleared off or adjusted. This forms the greater part of the business done on 'Change.

¹ *Börsenspekulanten; agioteurs*. The name 'jobber' is likewise used in the U.S.A. of persons who buy produce from importers to sell again to retailers.

² *Fondsmäkler; agents de change*.—Some Exchanges, as the one at Dublin, have only brokers. These in some countries, as France, are accounted merchants.

³ An Act was passed in the reign of George II. against stock-jobbing, but was repealed in 1860.

⁴ Repudiation is very rare. And so with cotton brokers at Liverpool, who ignore the requirement, in section 17 of the Statute of Frauds, of a written memorandum affecting sums of £10 and upwards. (§ 18 above.)

⁵ See § 185 *n*. When stocks or shares are sold, and quoted at a figure higher than their nominal values, they are said to be 'at a premium'; when at a lower figure, 'at a discount.'

⁶ Sharp practice on the part of any of its members is jealously watched by the committee of the Stock Exchange. Occasionally some are suspended for what is called 'rigging the market,' that is, making it appear that certain shares were at a premium.

⁷ *Liquidation*, in French and German.

⁸ 'Time Bargains'; *Zeitgeschäfte, marchés à terme*.

Buyers and sellers that engage in such transactions operate as 'bulls,'¹ who purchase 'options' in hope of a subsequent rise, so as to sell at a profit, and 'bears,'² who sell 'options' in hope of a subsequent fall so as to repurchase at a profit. They are of course respectively aided by a favourable and by an unfavourable state of things, chiefly as regards business or politics.³ An operator may by payment of a percentage acquire an 'option' to buy certain amounts of stock, or to sell it during a time limited, in the one case paying for what is technically called the *put*, in the other for the *call*, or if both operations are admissible, for 'the put and call.' If a bear, from scarcity of the stock concerned, have to delay delivery until the next settlement, he may do so by payment of a premium called *backwardation*⁴; in like manner a 'bull' may defer completion of his purchase by paying a premium called *contango*.⁵ If neither party intend that actual stock shall pass, the difference between the original price and the settlement price is simply paid by the one who is unfortunate to the other. This is of course mere gambling. The jobber makes his profit by putting a bull against a bear.⁶

The second day is called the Ticket Day, when the record is made up of strictly *bonâ fide* sales and purchases. The third is the Pay Day. The Stock Exchange *Clearing House* is the medium for the business of the closing day of the settlement.⁷

¹ *Haussiers* in French and German. They are called 'longs' on American Exchanges when they hold options ('futures') that they have been unable to sell.

² *Baissiers* in French and German; the American 'shorts,' so-called when they have sold options beyond the amount at their command, and have therefore to buy back in order to 'cover.'

³ During the Portuguese financial crisis of 1891, stocks of that country went up in the London market $2\frac{3}{4}$ upon the receipt of news of the formation of a stable ministry.

⁴ *Déport* in French and German. ⁵ *Report* in French and German.

⁶ Speculation is aided by the practice of banks and financial houses which lend largely on Stock Exchange securities. ⁷ See BITHELL, p. 68.

§ 268. The Stocks and Shares recognised and listed are divisible into—

- Government stocks and bonds;¹
- British Colonial, or Foreign Government stocks and bonds;
- Corporation Stocks, &c.;
- British and Foreign Railway stocks and debentures;²
- Tramway and Shipping Companies' shares;
- Bank shares, Financial Trusts, and Insurance Companies' shares;
- Commercial, Mining, and other Industrial Companies' shares;
- Telegraph and Telephone Companies' shares;
- Waterworks and Gas Companies' shares;
- &c.

Government securities are either funded or unfunded (floating stocks); the one class including 'Consolidated Bank Annuities' (commonly abbreviated into 'Consols'), the other, promissory notes described as 'Exchequer Bills,'³ 'Exchequer Bonds,' and 'Treasury Bills.' Exchequer bills, which were first issued in the reign of William III., usually run for twelve months from the date of issue, and bear interest according to a rate fixed by the Lords Commissioners six months in advance. The Treasury advertises when they will be paid off. Treasury bills are usually payable at three, six, or twelve months after date, at the option of the persons tendering.

By *omnium* is meant the collection or proportion of stocks assigned by Government to subscribers to its loans.

¹ *Staatspapiere*; *fonds publics*. 'International stocks' are those readily negotiable on the Exchanges of various countries, and afford scope for arbitrage operations. (Cp. § 256.) Such are 4 per cent. Indian bonds, besides Russian and Egyptian stocks, &c.

² Debentures are bonds engaging to pay a certain sum at a time named therein when converted into stock, so as to become an engagement to pay an annuity, the principal being sunk. They are called 'Debenture Stock.' ³ Cp. the French *bons du trésor* and German *Kassenscheine*.

National debts are reduced and extinguished by 'amortisation,' as it is called, which is effected by means of a 'sinking fund,' or by 'terminable annuities.' A portion of the interest paid, with its accumulations, is in the one case devoted to the extinction of the debt; in the other, a lump sum is paid to the Government for the purchase of an annuity. Such debts may be liquidated by annual instalments according to drawings or lottery, the holders being paid the full nominal value of their securities.

§ 269. Stocks or shares may be sold (*ex div.*¹ or *cum div.*,² that is, without and with the dividend respectively; in the former case especially just before the dividend accrues. Again, they may be bought 'for money,' that is, immediate payment, or 'for the account,' that is, the periodical settlement.

§ 270. In the twenty-fourth lesson we have spoken of the financial operations of certain bankers. Finance houses act as agents for various governments or public bodies by inviting subscriptions for loans raised by them, whether at par, at a premium, or at a discount. In other cases tenders are invited, and the highest accepted. Certificates are issued to subscribers, sometimes preceded by 'scrip.'³ The bankers are likewise commissioned to pay the dividend-warrants or 'coupons'⁴ as these fall due.

§ 271. Analogous to the issue of a loan is the floating of a company.⁵ This is initiated by the issue of a Prospectus inviting applications for shares.⁶ If a company consist of

¹ *Exklusive dividende* (as is indicated by 'x' in Frankfort Exchange lists).

² The French *intérêt compris*. (MERTEN.)

³ The German *Interimsscheine*.

⁴ See BITHELL under the word, also under 'Recourse.'

⁵ The various kinds of English companies have been enumerated in § 35 above.

⁶ Such as may be seen in any London daily newspaper. The *bona fides* of the Directors whose names appear on a prospectus is of capital importance; they will be liable for reckless representations. See further in ANSON, *Law of Contract*, p. 151. A notable case was that of the Directors of the Glasgow Bank, the collapse of which in 1878 was disastrous to many investors.

more than seven persons, it may be registered under the Companies Acts.¹ Letters of allotment and 'scrip' will be issued, and in due course will be followed by transmission of share certificates. The parties concerned will be required to pay 'calls'² or instalments as these fall due. The original shareholders may usually, by the Articles of Association, be afterwards postponed to the holders of 'preference shares,' and these again to debenture holders,³ &c.

In the year 1889 the paid-up capital of companies registered under the Companies' Acts was 775 millions.

Companies' meetings are held periodically; and, as a rule, half-yearly 'general meetings' of the shareholders⁴ are called to receive reports and confirm the same, a 'dividend' being then declared if it has been earned. In addition to the dividend exceptional profits, which might form part of the Reserve Fund, are sometimes distributed amongst the shareholders under the name of a 'bonus.'⁵ Dealings in shares of companies quoted on the Stock Exchange are of course governed very much by these reports.

Companies' shares are made over from seller to buyer by means of an instrument called a 'transfer.'⁶

The 'liquidation' or 'winding up' of a company is the process of arranging the affairs of a joint-stock company prior

¹ See § 35 above and notes.

² *Einschüsse*. "'A call,'" says Lindley, "is an expression used to denote both a demand for money, and also the sum demanded." (The Law of Partnership including its application to companies, p. 623.)

³ The difference between debentures of mortgage bonds and shares as investments is very appreciable, as the American railroad market. Speaking of investments, we have to divide investors into persons whose object is to obtain an income to live upon, and those who invest surplus capital for safety. The first seek as high interest as common prudence will allow; with the others the amount of interest is of secondary importance. Upon principle, it is the former that should be the more careful.

⁴ Voting may be by 'proxy,' for form of which see Act of 1862, schedule I.

⁵ *Prämie*; *prime*.

⁶ For form see BITHELL, *s.v.* Cp. Act of 1862, *u.s.*

to its dissolution. The person entrusted with this is called the 'liquidator.'¹

§ 272. A close observer of the current of trade and finance in any year may notice that there is often an expansion of trade when new securities are floated on the Stock Exchange. It has been especially remarked in the iron trade that contracts for iron are arranged when business is brisk on the Stock Exchange. It is largely to securities that we have to look for payment of exports, and if the former are not marketable a certain depression affects all trade more or less.² During two years down to the spring of 1892 the depreciation of securities has been estimated at an aggregate loss of 250 millions sterling.³

§ 273. A few extracts from money articles will illustrate the account above given of London Stock Exchange business.

"The stock markets to-day have displayed great activity and some irregularity. The arrangement of the account took up the most attention, involving as it did the settlement of some large differences. It would appear, however, from the comparatively low rates of continuation, that the bull account has been considerably reduced, especially in the home railway market. The charge here for carrying stock over was seldom more than $\frac{3}{4}$ per cent. for the fortnight. In the American department $5\frac{1}{2}$ per cent. per annum was the average charge for money, which seems low enough in view of a bank rate of 5 per cent. Foreign Government stocks were carried over at about the same rate, perhaps one-half per cent. lower."⁴

"Among foreign stocks the firmness of Peruvian, which closed respectively $20\frac{1}{2}$ and $17\frac{1}{2}$, has been the feature of

¹ As to voluntary liquidation see the Companies' Act, 1862, §§ 129 ff.

² Stock Exchange operations in their turn are restrained by unfavourable Board of Trade returns.

³ *Daily News*, 7th May, 1892.

⁴ *Daily News*, 26th Sept., 1889.

the day. Brazilian bonds are also firm, the scrip being at 8 discount, and the paid-up scrip $78\frac{3}{4}$, 9. Brazilian railway stocks are steady on the whole, but do not close at the best points. Cédulas¹ are less firm; the premium on gold at Buenos Ayres is $127\frac{1}{2}$ p. c. Bulgarian have receded to 93, and Italian, Portuguese, and Spanish are 3-16 to $\frac{1}{4}$ easier.”²

“The stock markets to-day were distinctly depressed by the confirmed news of Prince Bismarck’s withdrawal from office. Berlin is in no condition to remain firm under an event which must deeply impress the minds of investors and others throughout the Germany which became united and great under his guidance; and the natural recoil from over-speculation in mining and industrial shares on German Bourses last year now leaves Berlin subject to depressing influences. Paris, however, came in to buy somewhat more freely at the lower prices touched this afternoon. The London Stock Exchange, too, is disposed to look on the brighter side of the matter; reasoning that, while it would be serious to ‘swop horses when crossing a stream,’ the present is a favourable opportunity to try new men.³ At the same time, the young Emperor’s new measures are looked at with little confidence, and it is quite conceded that dozens of crowned heads would not be equal to Bismarck’s one.”⁴

“The stock markets were ill attended and dull to-day. Stocks were offered from both Paris and Berlin. The ostensible excuse for the depression was the spread of cholera in Spain; but it seems as if some of the powerful support lately given by the greater or international finance houses⁵ has been withdrawn until it may be necessary to

¹ Promissory notes of the Argentine Government. They serve for the raising of a loan in an indirect way. ² *Daily News*, 17th Jan., 1890.

³ This has been verified.

⁴ *Daily News*, 20th March, 1890.

⁵ This refers to importation of gold by such firms (cp. § 222), merely in order to ‘nurse’ the market.

prepare the market once more for the reception of new loans. Consols remain at yesterday's price for money, $97\frac{1}{4}$, $\frac{3}{8}$ xd., and are easier for the account at $97\frac{3}{8}$, $\frac{1}{2}$.¹ Rupee paper² has been firm, but finally went back to yesterday's price."³

§ 274. In closest touch, for certain purposes, with London is 'Wall Street,' or the New York Stock Exchange,⁴ which dates from the year 1820.

Business on this Exchange has several peculiarities, the chief of which are that each day's transactions are settled on the next day; the full amounts, not the differences, pass; there are no 'jobbers'; and the securities dealt in are mainly American railroad bonds and shares.⁵ Daily reports and quotations appear in the London morning papers. The following may serve as a sample:

"(THROUGH REUTER'S AGENCY.)

"NEW YORK, Sept. 30.⁶

"The stock market to-day opened lower. After a slight advance an attack upon Atchison, Topeka, and Santa Fé⁷ broke that stock, and destroyed the previous gains in the general list. Covering by *shorts*,⁸ however, stiffened prices, despite the high rate for money, while advances in specialities were recorded. The market closed quiet, but firm. The day's business amounted to 195,000 shares, including Atchison, Topeka, and Santa Fé 68,000, Philadelphia and Reading 11,000,

¹ In the year 1798 they were as low as $47\frac{1}{4}$; on the other hand, as late as 1881, they touched 103.

² See BITHELL, under 'Enfaced Paper.'

³ *Daily News*, 18th June, 1890. A 'price current' of other British Stock Exchanges (Glasgow, Manchester, Liverpool) is given regularly in the *Economist*.

⁴ See *Crittenden Arithmetic*, pp. 210 f.

⁵ *Encyclopædia Britannica*, vol. xxii. p. 557.

⁶ From *Daily News* of 1st Oct., 1889.

⁷ This railroad played an important part in what led to the London crisis of 1890.

⁸ See notes on § 267.

and Chicago, Milwaukee, and St. Paul 11,000. Money ranged from 6 to 30, the last loan being done at 15. The excitement in the Money Market was partly real and partly fictitious. Money was in scant supply on all stocks, but abnormal rates were required on sugar trusts and Atchison, Topeka, and Santa Fé. The bank reserves were low, and the banks called in loans on doubtful stock."

§ 275. Of the Continental Stock Exchanges, usually spoken of as 'Bourses,' that at Amsterdam is the oldest, dating from 1613; but, as Dr. Mill says, the Bourse at Berlin is 'second only to that of London'¹ in importance.

At Berlin there is no restriction, like that at London, upon the freedom of people in general to act as brokers. The settlement, which covers three days, takes place at the end of each month.²

Frankfort is the great financial centre of South Germany, and indeed is for the internal finance of the empire what Hamburg is for produce.

§ 276. The Paris Bourse ranks next to the Berlin Stock Exchange. It is composed of two distinct classes of operators, technically known as the *parquet* and the *coulisse*, from the walks on the Bourse appropriated to them respectively. To the 'parquet,' or inner ring, belong the official brokers, licensed by the Government. The '*coulissiers*' roughly correspond to our 'outside dealers,' only that the latter have no status whatever, whilst the '*coulissiers*' count in their ranks leading bankers and arbitrage houses. At Paris there is a monthly settlement, which lasts six days.³

§ 277. The following reports of business done on Conti-

¹ *Elementary Commercial Geography*, p. 101.

² The *Berliner Börsenzeitung* is the recognised organ of this Exchange.

³ A less formal gathering of operators do business in the evening on the Boulevard des Italiens. This is the 'Petite Bourse' mentioned in our daily newspapers. (*French Reader*, § 68.) Cp. the *Abendbörse* at Vienna (*infra*).

nental Bourses are selected from those appearing in London daily newspapers :

"Our *Berlin* correspondent telegraphs that the Bourse opened decidedly dull, owing to various unfavourable items of news, especially that a commercial crisis is brewing in Russia, that the French are about to rectify the Tripoli frontier, and that Cédulas have begun to fall in Amsterdam. Russian notes at first declined to 235 $\frac{3}{4}$, but they afterwards recovered a little, and this contributed to render the general tendency considerably firmer.

"Foreign bills were quoted at an advance, short and long on London being respectively 1 and 1 $\frac{1}{2}$ pfennig higher, and Paris bills 15 centimes higher. Private discount 2 $\frac{3}{8}$. The Bourse closed quiet."¹

"Our *Paris* correspondent telegraphs that the Bourse to-day was weak. The reports circulated concerning a revolution in Portugal had the effect of producing a heavy fall in Portuguese Threes, having closed yesterday at 56f. 10c. The earnings of the Suez Canal yesterday were 150,000f.

"Long paper on London was negotiated to-day from 25f. 27c. to 25f. 29c. ; short ditto from 25f. 19 $\frac{1}{2}$ c. to 25f. 20 $\frac{1}{2}$ c. ; and English gold and Bank notes from 25f. 16c. to 25f. 24c."²

"The failure of M. Rouvier in forming a Cabinet caused disappointment on the market, and Rentes were weak, closing a small fraction lower. International stocks³ were also dull, with, however, exceptions, the most notable being Italian, which rose $\frac{1}{8}$ on the day. Shares were quiet, and banks lower. There was a sharp recovery in Algerian Rails. The London exchange was less firm, and declined one centime. French Threes fell 20c., to 96.5 for money, and 10c., to 96.7 $\frac{1}{2}$ for the account. . . . London exchange, 25.26 ; rouble, 2.48 ; private discount, 2 $\frac{1}{4}$.

¹ *Standard*, 2nd Jan., 1891.

² *Ibid*,

³ See note on § 268.

"Business was done on the Petite Bourse this evening as follows: Three per Cent. Rente, for the account, 96.01 $\frac{1}{4}$; Turkish, Group IV., 19.20; Ottoman Bank Shares, 544.37; Four per Cent. Spanish, 61.25-32; Rio Tinto Shares, 432.50; Three per Cent. Portuguese, 28 1-16; Four per Cent. Russian. 1889, 93 $\frac{3}{8}$."¹

"According to Reuter's telegrams, at *Vienna* the Stock Exchange was weak, under the influence of lower quotations from Berlin, and also in consequence of the rumoured resignation of Prince Bismarck. Towards the close of business a firmer tendency prevailed. . . . Credit Shares and Lombards were weaker, and declined respectively 2fl. and 1fl.

"Light exchange on London, 119.40; Sovereigns, 11.92.

"The closing prices at the 'Evening Bourse'² to-day were as follows: Four per Cent. Hungarian Gold Rente, 101.70; Anglo-Austrian Bank, 151.10; Napoleons, 9.44."³

"At *Frankfort*, after a weak opening, a better tendency set in, and the closing of foreign stocks, although below yesterday, was firm. Credit Shares fell 1fl., and Lombards about 1fl. Short exchange on London, 20.39. Private discount, 4 per cent."⁴

¹ *Daily News*, 26th Feb., 1892. Cp. French report extracted from the *Temps*, in *Reader*, § 68.

² *Supra*.

³ *Standard*, 19th March, 1890.

⁴ *Ibid*.

LESSON XXIX.

ACCOUNTS AND CREDIT (continued).

Invoices—Accounts Current—Accounts Stated—Book-debts—Appropriation of Payments—Tender—Discharge—Set-off—Statutes of Limitation—Suretyship—Bills of Sale—Vicissitudes of Credit—Insolvency.

§ 278. IN the Fourteenth Lesson the subject of the Contract of Debt was introduced in the briefest possible manner, and in connection with it we considered the keeping of accounts, without, however, discussing the form of some accounts common to merchants' business in general. These we propose to take in the present lesson, and shall then explain the incidents of Book-debts, of Bills of Sale, and the Contract of Suretyship; and after having examined the disturbance of the healthy conditions of Credit as affecting Industry, Trade, and Finance in general, we shall close with some account of the operation and results of Insolvency.

§ 279. An 'invoice,' as already said,¹ is an account of the quantity, description, and price of, besides any charges on, merchandise. It is commonly sent by a merchant, manufacturer, or wholesale dealer, to his consignee or customer at the time such goods are despatched. The form of an old-fashioned 'bill of parcels' is familiar as having usually been given in *Manuals of Arithmetic*. We shall, then, here give only a form of Invoice as employed between shipper and consignee.²

¹ Sect. 208.

² For German forms, see ROTHSCHILD, ii. pp. 60-62; for French, MERTEN, p. 32.

*INVOICE of 500 bales of Cotton, shipped by.....
on board the.....Captain.....for account
of Messrs.....of Liverpool.*

1 to 500	500 Bales of Cotton.	Dollars.	Cts.
	<i>bales weighing</i>		
	300 „ lbs. . . . at.....cts.		
	200 „ „ . . . „.....cts.		
	<u>500 . . lbs.</u>		
	<i>Charges.</i>		
	<i>Brokerage</i>		
	<i>Cartage</i>		
	<i>Petty Expenses</i> _____		
	<i>Commission for purchase and drafts</i>		
	<i>.....per cent.</i>		
	\$		

New York.....189 .

Errors excepted (E.E.)¹

In regard to inland trade, it is usual for English manufacturers and warehousemen to send to their customers periodical 'statements' enumerating a series of invoices that have been sent out by them. If any overcharge be made, or goods returned, an allowance is made in respect thereof by means of a 'credit note.'

§ 280. An 'account current'² is a running account 'kept open and added to day by day, or from time to time. . . . When the payments made or received are considerable, the balance for or against a customer is often of sufficient importance to admit of interest being paid or demanded on such balance.'³ Interest is, by mutual agreement, generally charged upon both sides, as shewn in the following form :⁴

¹ E. and O.E., i.e., 'Errors and Omissions excepted.'

² *Laufende Rechnung; compte courant.*

³ BITHELL, *s.vv.* As to liability for interest in general, see below.

⁴ The form here given has been borrowed from the appendix to ANDERSON'S *Mercantile Correspondence*. Cp. *Crütenden Commercial Arithmetic*, p. 327; and for German forms see ROTHSCILD, ii. pp. 144 ff.; for French, MERTEN, pp. 296 ff.

Crs.

By balance 1 Jan.¹

¹ Contracted into *Bal.*

F. P. Drayton & Co.

Such an account is sent by one trader to another at periodical intervals of six or twelve months. The party who sends it mentions, in his letter advising same, the amount of the balance, and the correspondent is requested to compare the account with his books, and, if found correct, the latter confirms it, or asks for its rectification.

§ 281. An 'account stated' is an account that has been settled or agreed upon between two parties, wherein one admits that he is absolutely indebted to another in a specified sum. An I.O.U.¹ is the simplest and most familiar example. An action may be brought for the amount, in which the defendant will be liable simply on the ground that the account has been stated by the parties without reference to the way in which the liability arose.

§ 282. Book-debts carry no interest except by agreement, expressed or implied; as when interest has previously been claimed on one side and allowed on the other. In the absence of such agreement the creditor, in order to claim interest, should give the debtor notice of his intention to do so, as by intimation on the account rendered that interest will be charged after the expiration of twelve months' credit.²

A book-debt may be converted into a bill-debt,³ and as such would always have been assignable independently of the Judicature Act.⁴

From what has been said of the performance of contracts in general,⁵ it results that no demand of payment is actually required on the part of the creditor.

§ 283. In making a remittance,⁶ the amount should be specified in the letter accompanying it, and the creditor should be informed in respect of what such payment is made, and whether on account, or to balance an account, or to cover

¹ See § 90, above.

² According to 3 and 4 Will. IV. c. 42. As to interest on a bill-debt, see § 87c.

³ An instance of 'novation.' (BITHELL, *s.v.*)

⁴ Cp. § 20, above.

⁵ Sect. 22.

⁶ *Rimesse*; *remise*.

a bill. The payee, promptly acknowledging the receipt, should employ like specifications.

If a debtor owes several distinct amounts, and pays the creditor money insufficient to discharge all of them, the payment is applied to the debts which the debtor chooses to say; failing the debtor, the creditor has the right of making the appropriation;¹ and failing either party, it is to be applied to the items in the order of their respective dates.

§ 284. The 'tender' of a sum of money does not of itself extinguish the debt;² but if the debt carries interest, this stops at the time of the tender; and if the creditor sues, and recovers no more than the amount tendered,³ he will have to pay all the costs of the action—the debtor's as well as his own. The requisites for a valid tender are: tender of the precise amount due in Bank of England notes or gold to an unlimited extent, but in silver not beyond the amount of forty shillings, or in pence and halfpence to the amount of twelve pence; farthings to the amount of sixpence.⁴ The money must be actually produced, and although the creditor may refuse, the debtor must have the money in case the creditor change his mind.

§ 285. The theory of English law is that payment, however substantial, does not avail for complete discharge unless made by the debtor himself,⁵ a distinction being always observed between mere payment and *satisfaction*. The former may be effected by a cheque,⁶ or ordinary bill of exchange. The effect, then, of a creditor taking a cheque or bill for the

¹ Even in respect of debts barred by the Statutes of Limitation (*infra*).

² And so different from the case of tender of services. (§ 22.)

³ This should be paid into Court.

⁴ As to specie payments, see Coinage Act, 1870; and as to payment in notes, the Act of 1833 referred to above. (§ 224.) For payment by cheque, see below.

⁵ BENJAMIN, *Law of Sale*, 2nd edn., p. 615. POLLOCK, *Principles of the Law of Contract*, 4th edn., pp. 423 f. The civil law of 'solutio' was different: *solvendo quisque pro alio, licet invito et ignorante, liberat eum.* (Inst. iii. 29 pr.)

⁶ See §§ 86 ff.

amount of the debt only acts as an agreement not to sue until the cheque is presented or the bill comes due ; and if the cheque or bill is dishonoured, he may sue on the debt, or on such cheque or bill : it is taken 'on account,' being conditional. If, however, the creditor take it 'in [full] discharge' of the debt, that puts an end to the debt. The effect of part payment, whether by money or cheque, &c., is that the creditor can still sue for the balance.¹

Under the Stamp Act, 1891, a receipt² of some sort can be exacted by the debtor when making payment, under a penalty of £10. Every receipt for £2 and upwards, if unstamped, is subject to a further penalty. The person giving such a receipt must cancel the stamp by writing his name across it, as in the following sample :

*Received of.....the sum of one hundred
and fifty pounds, for goods delivered [or on account of,
&c.]*

1d. Stamp.

£150 : 0 : 0

J^{ohn} Smit^h.³

The date, which may be written short, is naturally added.

§ 286. 'Set off' is a claim which a debtor may have against his creditor,⁴ whereby that of the latter is reduced or fully extinguished. It was first allowed by a statute of George II. The Judicature Act provides that any claim may be set off against any other in one and the same action, unless the judge decides otherwise ; and if there is a balance due to the defendant, judgment may be entered in his favour for such balance.

¹ In all such cases care should be taken, when writing out a receipt, to qualify it by the words 'on account' (o/a), or 'by cheque.'

² *Quittung, Empfangsschein ; reçu, acquit.*

³ If a clerk sign this, he should subscribe 'per' (through), followed by his own name, or he may write 'pro' (on behalf of) before 'John Smith,' with his own name simply underneath.

⁴ It should not be one barred by the Statutes of Limitation.

§ 287. 'Accord and satisfaction' is the acceptance by the creditor of something different from that which was due in payment of the debt. Taking a negotiable instrument, as a bill or cheque, in part satisfaction is an illustration.¹ 'Accord' is said of the creditor, and 'satisfaction' of the debtor.

§ 288. A delicate and approved way of applying for payment of an outstanding debt, when there has been a suspension of business between the parties, is for the creditor to write to the debtor soliciting further orders, and only incidentally to ask for a remittance. If this step be ineffective, then more forcible language is employed. To 'collect' a debt is to get in the amount without resorting to legal remedies.

§ 289. The recovery of debts is subject to the Statutes of Limitation. One of the year 1624 relates to simple contracts; the other, of the year 1833, affects contracts under seal.² An action must be brought within six years to enforce a simple contract, or within twenty years to enforce a contract under seal, from the time the right to sue accrued, unless the plaintiff was at such time under disability, in which case the time runs from the cesser of the disability; or unless the defendant was at that time beyond seas, in which case the time runs from his return; or unless before the expiration of the six or twenty years respectively the defendant has made a payment on account, or has paid interest, or has given an acknowledgment in writing,³ in any of which last-named cases the time runs only from the date of the payment or from the date of the acknowledgment.⁴

¹ This again is what in Roman law is called *novatio*. (Cp. § 282*n*.)

² Cp. now Act of 1894.

³ Lord Tenterden's Act (1829) requires that it should be in writing. It must be made before an action has been brought, and must contain a promise to pay the debt, which must be given to the creditor, not to a third party. Such a promise revives the debt. It is the only case of 'moral obligation' to which the law will give effect.

⁴ The Statutes of Limitation only bar the creditor's right to sue, and do not actually extinguish the debt. Thus an executor is entitled to pay a debt of the testator which is statute-run.

The right of action accrues as follows : In the case of (1) a debt payable on demand, the time begins to run immediately ; (2) so also in the case of indefinite credit ; (3) when there is definite credit, the time begins to run from the date of the expiration of the period for which credit was given.

A judgment obtained in England is enforceable against property of the debtor in Scotland or Ireland by registering the judgment in the Scotch or Irish Courts, and *vice versa*.

A *foreign* judgment may be made the ground of an action in an English Court, a promise being implied by the defendant to pay the money that has been recovered against him. As it ranks as a simple contract, the time of limitation runs from the date of the judgment.

§ 290. The contract of 'guarantee'¹ is that entered into by one person who makes himself responsible for loss sustained by another through the default of a third. The consideration may be proved by oral evidence.² The principal debtor remains primarily liable. The guarantor (promisor) is called the 'surety' ; the creditor is promisee. By the Statute of Frauds, such an agreement must be in writing ; it very commonly takes the form of a 'bond.' As already stated, a bill of exchange, by indorsement, acquires the character of a guarantee.

A false representation concerning another person's position renders the party who makes it liable to be sued by the person to whom the representation was made for damages sustained by the latter through the false representation. But Lord Tenterden's Act provides that it shall not be a liability unless in writing, and signed by the party making it.

A surety may be discharged from his liability (1) by performance by the principal debtor ; (2) by the creditor's releasing the debtor, subject, however, to reservations by the former ; (3) by his death ; (4) if the guarantee was for a

¹ *Garantie*, in F. and G.

² See the Mercantile Law Amendment Act, 1856, s. 3.

certain time, by expiration of that time, or by previous performance ; (5) by any fraudulent representation or concealment of material facts by the creditor ; (6) by the creditor's making any alteration in the terms of the contract without his consent ; (7) by change in a partnership firm for which the guarantee was given ; (8) by bankruptcy of the surety.¹

The surety who has paid the debt has a right against the principal debtor to recover what he has paid ; against a co-surety, to recover his share ; and against the creditor, to obtain the benefit of all rights and securities enjoyed by the creditor, to take his place and sue in his name.²

§ 291. A 'bill of sale,' (B/S) by way of mortgage, differs from a pledge and a guarantee in regard to the facility with which the creditor's security can be realised. An assignment of goods whereof the assignor remains in possession must be made by deed. By the Bills of Sale Acts of 1854 and 1878 every assignment of chattels must be made with certain formalities, and registered in a public office within seven days after its execution ; otherwise, in the event of the assignor remaining in possession of the property (as commonly in the case of a mortgage), and becoming bankrupt, or execution levied on the property under a judgment, the trustee in the bankruptcy or the execution creditor shall be entitled to obtain the goods as against the person to whom they were assigned by the deed. The Bills of Sale Act of 1882 applies only to assignments by way of mortgage : it makes a mortgage of goods for a less amount than £30 void, and provides that the mortgage shall be in a particular form, and shall comprise only goods that are specified in it, and must be registered as already stated.

§ 292. The position in which a man finds himself who executes a bill of sale savours of *insolvency*, which, as a matter

¹ Not by the debtor's bankruptcy. As to continuing guarantees, see STEVENS' *Mercantile Law*, p. 298.

² The leading case for guarantees is *Birkmyr v. Darnell*.

of commercial importance, we shall deal with after first contemplating the disturbance of healthy credit on a large scale as a fruitful source of bankruptcies. Let us then look a little at the circumstances which impair credit, leading to 'crises' and 'panics.'

The history of British credit reveals periodical recurrence of *crises*, and certain cycles in which credit moves from good to bad, and back to good again, by stages which have been analysed by careful observers. Lord Overstone has discriminated the following features: 'state of quiescence, improvement, growing confidence, prosperity, excitement, over-trading, convulsions, pressure, stagnation, distress, ending again in quiescence.'¹

§ 293. Over-production, possible in respect of manufacturers' profits, is a manifest cause of industrial crises, which depend on the conditions of the money market. An 'easy' market stimulates enterprise. Whilst the sun shines, as we may say, companies are formed in rapid succession for the employment of plentiful capital in wide-spread production. Increase of consumption entails *rise of prices*, as in the cotton trade in 1847.² This is the period of *expansion*. It may be sometimes partial, affecting perhaps only a single industry: such inflation is called a 'boom,' of which there was an example in the iron trade in the autumn of 1889. With expansion, the rate of interest goes up.³

§ 294. Presently it is found that things are far from right; there has been loose trading, as seen in post-dating of invoices.⁴ Above all, a drain of money sets in, noticeable when the Bank of England—the watchful guardian of credit—raises its rate of discount in successive weeks.⁵ This step awakens

¹ *Tracts*, p. 31.

² The collapse at that time was helped on by the railway mania and the failure of corn speculations.

³ See MILL, iii. 23, 3.

⁴ BITHELL, p. 232.

⁵ In 1847 it went up to 13 %, beyond all precedent.

distrust : there are now more sellers than buyers, so that *prices fall*. "In times of good credit," writes Bagehot, "there are a great number of strong purchasers, and in times of bad credit, only a small number of weak ones ; and therefore years of improving credit are years of rising price, and years of decaying credit are years of falling price."¹

§ 295. A sudden fall of prices precipitates a 'crisis,' marked by a 'run' on banks.² Here we have the period of *revulsion*, which, exhibiting itself in some one country first, spreads to others. Thus in 1857 the American commercial crisis spread to England, export houses and the iron industry in particular being affected. If the collapse be of the nature of the 'South Sea Bubble,' it is called a 'crash.'

In 1719 the directors of the South Sea Company offered to pay off the Government debt by giving shares to the holders of the Funds, if Government would grant the company certain privileges they asked for. In the following year a Bill was carried by which the company's offer to advance £7,500,000 was accepted. The shares rose from 100 to 1000. Various bogus companies sprang up, whose delusive representations were exposed by the South Sea directors ; but more microscopic attention was only thereby attracted to their own proceedings, and in 1721 the bubble burst. The shares then fell to 135, and at last became almost valueless. Thousands were ruined.³

§ 296. Any crisis of large proportions which is not counteracted is followed by depression of trade, and of industry as regulated by it ; but revival comes sooner or later. Low prices produce many buyers, and credit then operates as before. Such is the period of *recovery*. Expansion will again

¹ *Lombard Street*, p. 138. In time of bad credit bills of few people are taken, and with a certain suspicion.

² See MILL's description of a panic. (iii. 12, 3.)

³ The 'Bubbles Act,' passed soon afterwards, prohibited the establishment thenceforth of any company without Parliamentary sanction or Royal licence. This was, however, repealed by the Banking Act of 1826, mentioned in an earlier lesson.

show itself; the financial world has then to anticipate, and take means to ward off, renewed convulsion of business.¹

The remedies for these crises are, to keep the reserve of specie at a higher level, regulating speculative transactions, and keeping down prices by means of the Bank rate of discount.

§ 297. We may finally glance at the main features of *insolvency*² and *bankruptcy*.³

The present English law of bankruptcy is contained chiefly in the Bankruptcy Acts of 1883 and 1890.⁴

The voluntary publication of the fact that a man's liabilities or debts exceed his assets or resources is made by his announcing, by circular or otherwise, to those who have business relations with him, his creditors in particular, that he is obliged to 'suspend payment.' The debtor states the causes of his inability to discharge the claims upon him, and how he proposes, if at all, to reduce them. This declaration is itself an 'act of bankruptcy.' To obtain relief, the debtor must lodge a bankruptcy petition,⁵ upon which a receiving order will be made, and his property then vests in an Official Receiver. The debtor undergoes a public examination based upon his 'statement of affairs,' and meetings of the creditors are held. If there be no composition accepted by them,⁶ he is 'adjudicated' a bankrupt. A trustee,⁷ commonly some chartered accountant, is appointed by the creditors, and he takes the place of the Official Receiver.⁸ Then follows the liquidation and distribution of

¹ There may be a financial without any attendant commercial crisis. So in the autumn of 1890, when the ferment created by the embarrassment of Baring Bros. did not touch the markets for produce; but distrust is awakened, which exhibits itself in the falling off of foreign trade, as evidenced by recent Board of Trade returns.

² *Zahlungsunfähigkeit*; *insolvabilité*.

³ *Falliment*; *faillite*.

⁴ For the economic aspects of the subject see MILL, v. 9, 8.

⁵ *Konkurs erklären*; *se déclarer en faillite*.

Such a composition requires the sanction of the Court.

⁷ *Curator*; *Syndic*.

⁸ *Dividende*, F. and G. In England it is put at so much in the £; on the Continent at so much %; in the United States at so many cents in the \$.

the property by dividend,¹ subject to the preference enjoyed by the creditors who are 'secured,' that is, who hold substantial security for their claims, as by mortgages, &c. Last of all comes the 'discharge,' upon such terms as the Court thinks fit.

A debtor may also settle with his creditors outside the Court by a 'deed of arrangement.' He is then said to 'compound' with them and to pay a 'composition.'

Imprisonment for debt was abolished by an Act of the year 1861, in keeping with the tendency of modern times in legislation to favour the debtor rather than the creditor.²

§ 298. Insolvent companies are liquidated according to the regulations of the Companies Acts and Bankruptcy Acts conjointly. The Companies Act of 1862 contains rules as to 'contributories,' that is, all those liable for the debts of the company by reason of their having been shareholders within a certain period limited by the law.

¹ The various stages in bankruptcy are recorded in the *Gazette*, published respectively at London, Edinburgh, and Dublin.

² Debtors may still be imprisoned upon a judgment summons provided by the County Court Acts, but this supposes *contempt of court* in not at first obeying its order.

APPENDIX

A.

TEXT BOOKS OR WORKS OF REFERENCE FOR SPECIAL SUBJECTS.

The standard work on the requirements and methods of Commercial Education is LÉAUTEY'S *L'Enseignement Commercial et les Écoles de Commerce*, etc. (Paris: Librairie Comptable, 1886). See now *Report* of the London Technical Education Board (1899).

Lessons I., II.—For English Law in general, Stephen's *Commentaries*, founded on Blackstone.

Mercantile Law in particular is admirably treated in Smith, *Compendium of Mercantile Law*, one of the most accurate of law-books. See now also Edwards, *Commercial Law*.

The more important statutes, commercial and industrial, may be found in Chitty, *Statutes of Practical Utility*, ed. by Lely.

The functions of Government departments concerned with Trade or Industry are set forth in more than one of the manuals published by Macmillan and Co. as *The Citizen Series*.

The rules of the Napoleonic *Code de Commerce* as administered at the present day, with those of the German *Commercial Code*, are compared with English law in Späing, *Französisches und Englisches Handelsrecht im Anschluss an das Allgemeine Deutsche Handelsgesetzbuch*.

Dicey, *Conflict of Laws*, contains all that commercial students require for their study of that topic.

Lessons III., XVII.-XIX.—Economics in general may be studied in Walker, *Manual of Political Economy*.

Marshall, *Economics of Industry*, and the second part of Roscher, *Nationalökonomik des Handels und Gewerbflusses*, deal with Labour in particular.

English Industrial History is represented by Rogers, *Economic Interpretation of History*; Gibbins, *Industrial History of England*;

Ashley, *Introduction to Economic History and Theory*; Brentano, on *Guilds*; and Toynbee, *The Industrial Revolution*. The works of Sir Henry Maine should be consulted for the history of *proprietary rights*, which is the same as that of agricultural progress. The effect of *systems of tenure* upon Production is described in Laveleye, *Elements of Political Economy*, pp. 55 ff. (Pollard's translation.) For the history of restrictions on labour, see Roscher, pp. 598-693.

Industrial Geography should be studied in *Manuals of Commercial Geography*, such as those by Chisholm and Zehden. The history of colonial enterprise should be studied in Lucas, *Introduction to a Historical Geography of the British Colonies*.

The various Commercial Commodities would be found described in the dictionaries of Ure and Spen, the *Encyclopædia Britannica*, in Seubert, *Handbuch der Warenkunde*, and in Bayles, *Les Produits Commerciaux et Industriels*.

The processes employed in British manufactures at the present day are dealt with in Cassell's *Great Industries of Great Britain*.

Lesson IV.—The best student's book on the *English Law of Contract* is that by Sir W. R. Anson.

Lesson V.—There is an excellent *Manual of English Correspondence* by Greenwood and another by Coumbe. Teachers should also possess such books as Adam's *Commercial Correspondence*; Noback and Pond's *Mercantile Correspondence*, in two parts, German and English, as edited by Remsodel; or Odermann's *Handels Korrespondenz*; Carroué's *Commercial French*; Whitfield's *Commercial German*; Eitzen's *Commercial Dictionary*, in two vols., German-English and English-German; and Scholl, *Phraseological Lexicon*. As to other books for the study of languages (Spanish, Italian, etc.) on their commercial side, reference should be made to the writer's pamphlet entitled *Guide to the Effective Study of Languages for Business Purposes* (Hachette), which extends also to Shorthand and Typewriting. For *Précis*, reference might be made to Sutherland, *Manual of Commercial Instruction*, pp. 179-182, or Meiklejohn, *Art of Writing English*.

Lessons VI., VII.—The reading of the sections relating to contractual capacity should be supplemented by reference to Sir W. Anson's treatise on the *Law of Contract*.

Partnerships and Companies are well treated of in Sutherland, ch. xxxi.

The Law of Partnership is contained in the standard treatise of Lord Justice Lindley, and in Sir F. Pollock's *Digest*.

Companies' Law is well set forth in Manson, *Law of Trading Companies*. Messrs. Black have also published a useful handy manual on each by Wheeler.

For Agency, reference might be made to Campbell's *Law of Commercial Agency*.

Lessons VIII., XX.-XXII.—Most of the subjects comprised in these lessons might be further studied in Rothschild, *Taschenbuch für Kaufleute*, vol. iii.; Cohn, *System der Nationalökonomie*; Gonner, *Economics of Commerce*; Courcelle-Seneuil, *Manuel des Affaires*; Merten, *Manuel de Sciences Commerciales*; and in Laing, *Theory of Business*, which, however, is unhappily out of print. See also Sutherland, ch. xxviii., as to Manufacturers' prices.

Bithell, *Counting House Dictionary*, is a cheap and most useful work of reference, at once both scientific and practical.

For Statistics, reference must be made to such books as Martin, *The Statesman's Year Book*, ed. by Keltie, and K. B. Murray, *Year Book of Commerce*.

The English Law of Sale of Goods is expounded in the standard work of Benjamin, whilst Judge Chalmers has laid students under great obligation by his treatise on the *Sale of Goods*, and his edition of the Sale of Goods Act, 1893. Constant reference has been made in the latter work to the Roman Law of Sale, so frequently made use of in English judgments. See further the recently published work of J. B. Moyle.

Lesson IX.—The history of English Trade may be fully studied in Cunningham, *Growth of English Commerce, &c.*; Levi, *History of British Commerce* (from 1760 to about 1870); Rogers, *Economic Interpretation of History*; and Gibbins, *British Commerce and Colonies*. See also Seeley, *The Expansion of England*, and Lucas, *Introduction to the Historical Geography of the Colonies*.

Lessons X., XXIII.—The mechanism of Transport is set forth with great detail in Gambaro's *Lessons on Commerce*, edited by Professor Gault; and see now also Hooper and Graham, *Modern Business Methods*.

The economic aspects of the subject should be studied in Roscher, pp. 356-498, or in Cohn. (Vol. iii.)

The law of Railway Carriers is contained in a treatise by Redman; that of Shipping in the standard work of Abbot (Lord Tenterden), as edited by later writers. See also Scrutton, *Charter Parties and Bills of Lading*.

For the special study of ports, see Dorn, *Die Seehäfen des Weltverkehrs*, which includes an admirable account of our own leading ports. (Vol. i. pp. 917-1095.) There is much that is interesting in Yeats, *Golden Gates of Trade* (e.g., ch. viii.) The different usages and requirements are contained in the *Shipping Annual*, edited by Major Jones, U.S. Consul in London; the British Customs Regulations in particular, in Ham, *Customs Annual*.

Chambers's *Information for the People* (Nos. 28, 29, 89) is a storehouse of particulars in the history of Transport.

Lessons XI., XII., XXVII.—The standard English works on the subjects of the first of these lessons are the treatises of Professors Jevons and Nicholson; and Prof. Walker, an American economist, has written a book of sterling value, entitled *Money, Trade, and Industry*. Reference might also profitably be made to the article on Money, by Prof. Bastable, in the *Encyclopædia Britannica*, and to Roscher, pp. 201-245. For the regulations of the Mint, see Tate, *Counting House Guide*, pt. ii. pp. 61 ff., which should also be consulted for calculations as to bullion.

The *Economist* and *Bullionist* are weekly London journals devoted to monetary questions in general.

Until the passing of the Bills of Exchange Act, Mr. Justice Byles' treatise on *Bills, &c.*, enjoyed a monopoly of favour. See now the annotated edition of the Act by Judge Chalmers, who drafted it. For the history of Negotiable Instruments in general, reference should be made to the judgment of Chief Justice Cockburn in *Goodwin v. Robarts* (set out in Stevens's *Elements of Mercantile Law*, itself an excellent student's book). For an analysis of the German law on the subject, to which rather than to the French approximate most European codes, such as the Italian, Spanish, Portuguese, and Scandinavian, see Rothschild, *Taschenbuch, u.s.w.* i. 367-371.

The theory of the Foreign Exchanges has been elucidated in the standard treatise of Mr. Goschen, to which may now be added

a *Key to the Foreign Exchanges*, by Mr. G. Clare (Schuster and Co.), who has delivered valuable lectures on the Exchanges for the Institute of Bankers.

There is a useful *Manual of Foreign Moneys* by Browne. Cp. Sutherland, ch. iii.

Lessons XIII., XIV.—Prof. Walker has written an excellent work on *Wages*. The fifth chapter of Mr. Danson's *Wealth of Households* should be read for the appreciation of the view taken by business men of Profit. As to Profit-sharing, see the work of Sedley Taylor; as to contemporary Socialism, the treatises of Laveleye and Rae.

Every teacher and self-taught student should have Dr. Wormell's *Mercantile Arithmetic*, Pendlebury and Beard's *Commercial Arithmetic*, and Jackson's *Commercial Arithmetic*, if not also the American treatise entitled *Crittenden Commercial Arithmetic*, to which frequent reference has been made in the lessons. A most useful book of reference exists in Tate, *Counting House Guide*, edited by the late Dr. Westby Gibson, a practical accountant.

The Decimal System, Chain Rule, and Exchanges are well stated in Brook Smith's larger *School Manual*; Stocks, in the second part of Pendlebury; whilst the application of Logarithms to Compound Interest is clearly explained by Wormell.

Candidates for the Society of Arts examination should, of course, have Barnard Smith's *Arithmetic for Schools*, as edited by Professor Hudson.

The methods taught in Belgian higher grade schools are contained in Merten, *Manuel de Sciences Commerciales*, named above; and those employed in the Leipzig *Handelsschule* may be learnt from the manual of Dr. Odermann, a former headmaster of that school.

Of treatises on *Bookkeeping*, we may recommend Thornton's *Manual of Bookkeeping*, Nixon's *Advanced Bookkeeping*, and the manuals of Messrs. Dicksee and Van de Linde, both of whom are chartered accountants. Some useful hints on the detection of errors would be found in the *Crittenden Arithmetic*.

Sutherland's *Manual of Commercial Instruction* bears especially on Bookkeeping. The work proposed in ch. xxv. there covers much of the ground of 'Counting-house practice' as taught in the Antwerp and Leipsic schools.

The *Crittenden Manual of Bookkeeping* represents the American

system. The latter should not be entered upon until the English method has been mastered. Specimens of French accounts would be found in Langenscheidt, *Französisch für Kaufleute*, pp. 23-35.

For comparative Moneys, Weights, and Measures, see the manual by Browne, already mentioned.

Lesson XV.—For the history of Taxation in England, see the valuable work of Mr. Dowell, Assistant-Solicitor to the Inland Revenue.

The pages of Adam Smith will of course always be consulted for the study of the Mercantile Theory. The succession of ideas which have governed English legislators in particular is set forth by Schanz in his *Englische Handelspolitik*. See also Roscher, pp. 175-201, and the recently published work of Prof. Bastable, entitled *The Commerce of Nations*.

For the Corn Laws in particular, consult the writings of Richard Cobden, and speeches of John Bright. On Mr. Gladstone's Budget of 1860 see Levi, *History of British Commerce*, pp. 365-371. The same work may be consulted (pp. 417-433) as to Treaties of Commerce.

The Free Trade doctrine in its accepted form has been re-asserted by Fawcett in his *Free Trade and Protection*, and in the writings of Sir T. H. Farrer, as also in various papers issued by the Cobden Club, and by the French economists Levasseur and Léon Say.

For Foreign Tariffs, see Jones's *Shipping Annual*.

Upon the retention of the Colonies, see an Essay of W. R. Greg in the second volume of those republished from the *Edinburgh Review*; also Ransome, *The Colonies: How we got them, and why we keep them*.

Lesson XVI.—Insurance forms the subject of an article in the *Encyclopædia Britannica*, where examples are given of computations in which actuaries engage. See now also Gow, *Marine Insurance*. Dr. Wormell's *Arithmetic for Schools and Colleges* is one of the very few school manuals written in English which treat Annuities and Insurance at all adequately. Cp. the Belgian work of Merten, mentioned above.

There is a suggestive chapter on Life and Fire Insurance in

[Umlin, *Hints on Business*. The law on the subject would be found in the manual by Morrell. (Black's series.)

Lessons XXIV.-XXVI.—The standard work on English Banking is that by Mr. Gilbert, for many years manager of the London and Westminster Bank. A good idea of the business of Provincial Banking may be gained from Rae, *The Country Banker*.

As to the Bank Charter Act, see Levi, pp. 272-291, 311-315; Walker, *Money, Trade, and Industry*, ch. xi.; Price, *Currency and Banking*; and Bagehot, *Lombard Street*. Cp. Roscher, ch. ix.

Banking Law may be studied in the manual by Tillyard. (Black's series.)

For American Banking, consult Levi, pp. 226-231, and Walker, ch. xii.

Lesson XXVIII.—There is a helpful article on Stock Exchanges in the *Encyclopædia Britannica*. See also Crump, *Stock Exchange Speculation*; Effingham Wilson's *Handbook for the Stockbroker, &c.*; and Gibson, *Stock Exchanges of London, New York, and Paris*. The operations of Stock Exchanges have been popularly described by the French novelist Zola in *L'Argent*.

Lesson XXIX.—On Crises, see Roscher, pp. 800-831.

The present Law of Bankruptcy would be found in Chalmers and Hough's annotated edition of the *Bankruptcy Acts of 1883, 1890, &c.*

B.

EXAMINATION QUESTIONS.

I. OXFORD AND CAMBRIDGE JOINT BOARD.

1. WHAT are the principal products of new countries? Illustrate your answer from any British colony.

2. Write a letter applying for a situation as clerk in the firm of Lewis and James, export merchants, 2, Water Street, Liverpool, and stating your age, qualifications, experience, etc.

3. What were the terms of the Treaty of Utrecht? To what extent did it promote British commerce?

4. What is the meaning of nett cash ; goods on passage ; goods ex ' Baltic ' ; freight ; delivery order ?

5. Give as nearly as you can the present English value :

(a) Of the following coins—franc, mark, cent, piastre. Give also the approximate value of the rupee, rouble, American dollar. In the last three cases give what is called the par value, and explain what is meant by the depreciation of silver.

(β) Of the following foreign measures—pood, kilometre, maund, quintal.

6. "It is estimated that the French people requires and uses three hundred millions sterling of metallic money for its domestic business. Great Britain carries on a larger business with only one hundred millions." How would you account for such differences?

7. What is the meaning of a Deposit account ; cover ; a marked cheque ; clearing a cheque ?

8. Describe the origin and growth of the Bank of England. What connection is there between the Bank and the National Debt ?

9. Explain the following quotations of Exchange :

"India : Demand rates were cabled 1s. 6½d. for Bombay and 1s. 6¾d. for Calcutta.

"Berlin : Foreign bills weaker, both long and short on London being a pfennig lower.

"Hamburg : 3 mos., 20½ to 20½8.

"St. Petersburg : ditto, 27¾ to 27¾.

"New York : 60 days, 48½ to 48¾."

10. What is the meaning of sold note ; securities to bearer ; preference shares ?

11. Do high wages drive trade away from the country ? Answer carefully.

12. What is the meaning of E. & O. E. ; balancing books ; posting the ledger ?

II. CAMBRIDGE LOCALS.

13. What is meant by the division of labour ?

“The division of labour is limited by the extent of the market.” Explain and illustrate this statement.

14. Describe and explain the general change in the nature of the manufacturing industry of England at the end of the eighteenth century.

15. (a) Write a letter of introduction from a firm in favour of one of the partners who is about to travel in order to extend the business.

(b) Write a reply from the correspondent to whom the letter has been presented, detailing the conditions for new business that have been arranged.

16. Define Value. Classify the principal causes of fluctuations in market prices. Illustrate by special reference to (a) wheat, (b) iron.

17. Explain the following : “There was a demand for futures, November shipments being in especial request. Spot cotton rose a point.”

18. Explain : “By the terms of the charter party, there is no claim for demurrage under the circumstances.” “We have negotiated a loan against the shipping documents.” Specify the shipping documents.

19. Explain briefly what you understand by Mint price of gold, Seignorage and Brassage, Gresham’s Law, Legal Tender, Token Coinage, Bimetallism, Convertible paper money.

20. Explain the principal functions of modern banks. How do banks make their profits ?

20a. Give some account of the Bank Charter Act of 1844. Explain and account for the effects of its suspension during a period of financial panic. Why is the reserve of the Bank of England sometimes spoken of as the barometer of the Money Market ?

21. Explain what is meant by open cheque, usance, short bill, face value, protest of a bill, specie point, favourable exchange.

22. Give an analysis of profits, and bring out the main points of resemblance and difference between earnings of management and ordinary wages.

23. Explain what is meant by the *incidence* of taxation. Examine the incidence of (α) a tax on tea, (β) a tax on agricultural rent, (γ) a tax on cheques.

24. A man, aged 30, insures his life for £1000, paying a premium of £15 at the beginning of each half-year, and dies at the age of 55. Shew that if, instead of insuring, he had invested the premiums at 4 per cent. per annum (payable half-yearly), he would leave over £1250 at his death.

Given: $\log 102 = 2.0086002$, $\log 26916 = 4.4300105$.

III. OXFORD LOCALS.

25. Examine the respective advantages of the manufacturer on a large and the manufacturer on a small scale.

26. Describe the rights and liabilities of principal and agent (1) as between themselves, (2) in relation to third parties.

27. What circumstances determine the relative advantage which a country derives from foreign trade.

28. The wars of the Eighteenth century have been described as a hundred years' conflict with France for the possession of North America. What does this mean, and how far is it true?

29. Explain why the cessation of war in 1815 did not bring renewed prosperity in England.

30. What is meant by the right of stoppage *in transitu*, and to what risks is the exercise of this right subjected?

31. Suppose the Channel Tunnel were made, what class of goods do you think would be conveyed through it? Give reasons for your answer.

32. What is meant by negotiability? Is a bill of lading a negotiable instrument?

33. Point out the effects of an inconvertible paper currency.

34. What causes determine the fluctuations in foreign exchanges?

35. What is the meaning of calls on shares, contango, making a price?

36. What is meant by saying that an annuity is worth '*m* years purchase'? Find the present value of the reversion after four years of a perpetual annuity of £607 15s. 0½d. a year, reckoning compound interest at 5 per cent.

IV. INTERMEDIATE EDUCATION BOARD FOR IRELAND.

(Middle Grade.)

37. To what three causes was the recent depression of the agricultural interest in Great Britain due?

38. Give some account of the growth of the cotton industry in England between the close of the Seven Years' War and the battle of Waterloo.

38*a*. Trace briefly (with dates) the industrial and commercial progress of Belfast, Bristol, Glasgow, Leeds.

39. Write an essay on one of the following subjects :

(*a*) Free Trade and its advantages to the United Kingdom.

(*b*) The probable consequences to England of a failure of the coal mines.

(*c*) The advantages of colonies to the mother country.¹

40. What are the chief exports of the following countries? Greece, Servia, Sweden, Holland. Name the four largest coal-producing countries in Europe.

41. I have received two tenders for the purchase of my stock-in-trade, one being for £2,840, to be paid three months hence, the other for £1,000 cash and a six months' bill for £1,840. Which is the higher tender, and by how much, calculating the commercial discount at the rate of 5 per cent. per annum?

42. A tradesman desires his assistant to mark his goods with two prices—one for cash, the other for a credit of 6 months. What ratio should these two prices bear to each other, money being worth 5 per cent. per annum simple interest?

43. If 1,900 kreuzers are equivalent to 47 francs, 60 francs to 19 roubles, 1 rouble to 2s. 6d., and 100 Japanese sens to 3s. 6d., how many kreuzers are equivalent to 893 sens?

44. If I pay 12 fr. 65 c. per kilogramme for goods in Paris, at what price per lb. avoirdupois in English money must I sell them so as to gain 10 per cent. on the transaction, the course of exchange being 25 fr. 30 c. for £1 between England and France? (A gramme is equal to 15,432 grains.)

45. Explain the terms 'Consignment,' 'Consignor,' 'Consignee,' and the meaning of the letters F O B and C F I used in business.

46. What is an inventory, an account-current? What account in the ledger represents the merchant, and which side should be the greater if he is solvent?

47. What circumstances led to the South Sea Bubble? Mention any other great commercial crisis in the later history of England.

¹ There is also set an exercise in copying manuscript.

V. LONDON CHAMBER OF COMMERCE.

48. Describe the changes in the treatment of land that were in progress under Henry VII. and Henry VIII.

49. Which are the great manufacturing districts of the German Empire? Mention the staple industries of the chief towns in each district, and the nearest seaports.

50. Sketch the commercial relations of England and Flanders in Edward the Third's reign. What was their effect on the foreign policy of that king?

50*a*. Discuss the effect upon English or Irish commercial and industrial development of the work of Sir Walter Raleigh, Adam Smith, Richard Cobden.

51. Trace the course of a steam vessel from Southampton to Bombay. How could the journey be shortened by a traveller going overland?

52. Explain the cause of the Trade Winds. How do these winds affect the course of a vessel going from England to Cape Colony?

53. What were the objects of the Navigation Act of 1651, and in what wars did it involve England?

54. Explain the historical origin of the terms—a florin, a guinea, Lombard Street, the Danish steelyard, showing what foreign nations were principally concerned with English commerce in the Middle Ages.

54*a*. Designate the different parties to a Bill of Exchange endorsed. Explain clearly: Dock Warrant, Protest, Drawback, Collateral Security.

54*b*. Make out the Account Sales of 100 bales cotton shipped by Messrs. Dosabhoy and Co., Bombay, per *Sumatra*, for sale on their account and returns to them, to Mr. J. Wells, London. Net weight, 60,000 lbs., at 4s. per lb. Specify the charges which, together with freight, amount to £65, commission $2\frac{1}{2}$ per cent. Remit proceeds by a Bank Bill on Bombay, and draw out the Bill.

55. What do you understand by Free Trade and Protection? Give historical instances of measures promoting each, and the Ministers who principally supported Free Trade.

VI. MANCHESTER CHAMBER OF COMMERCE.

(Conducted by the Victoria University.)

56. What is the cause of winds and rain? In Europe which winds bring rain and which are dry winds?

57. What is the cause of currents in the ocean? Show on a map the currents that are most important, either from their influence upon climate or upon navigation.

58. Which do you consider the greatest barrier to commercial and national intercourse—rivers, seas, or mountains? Illustrate your answer by applying it to the case of England, France, Spain, Italy, Germany, and Austria.

59. The soil of Ireland is excellently suited to the growth of flax, which yields raw material for the chief industry of Ireland, as well as producing linseed, from which valuable products are got. Has the cultivation of this valuable plant received much attention in Ireland? If so, in what districts? If not, what is the reason?

60. Write on letter paper, fold, put in an envelope and address, a letter to an American gentleman named Samuel Johnson, a stranger in England, explaining to him the best way of getting from Liverpool to Manchester, and directing him how to find his way to a lawyer's chambers in King Street. He is at present stopping at the Adelphi Hotel in Liverpool.

61. A banker borrows a sum of money at $3\frac{1}{2}$ per cent. and pays the interest (simple) at the end of the year: he lends it out at 5 per cent., but receives the interest (also simple) every half year, and by this gains £200 a year. How much did he borrow?

62. A ship's hold 36 ft. long, 13 ft. broad, and 13 ft. 6 in. deep, is completely filled with two sizes of cloth bales, one size measuring 3 ft. \times 2 ft. \times $1\frac{1}{2}$ ft., and the other 4 ft. \times 3 ft. \times $1\frac{1}{4}$ ft., there being two of the smaller bales for every three of the larger. How many bales are there in all?

VII. SOCIETY OF ARTS.

63. State in detail the influence of latitude on the commercial development of a country, and on its settlement by a European population.

64. Supposing a young farmer asked your advice as to whether he should emigrate to Manitoba or Natal, what advice would you give, and why?

65. Explain the terms 'active trade' and 'passive,' and illustrate both, from history as well as from recent and existing commerce.

66. How and why are consuls appointed? Have all like powers?

67. What are the three principal articles of import on which Customs' duties are levied? On what proportion or percentage of

the total imports of the United Kingdom are Customs' duties levied?

68. What do you know of the Customs' tariff of Australia and New Zealand?

69. A tradesman's expenses are 12 per cent. of his receipts, and he allows his customers 5 per cent. abatement for cash, how much per cent. above cost price must he mark his goods to make a profit of 10 per cent. on his capital?

70. I owe £500 now, and £500 at the end of two years. Shall I gain or lose by paying £1000 at the end of one year? If the rate of interest be $4\frac{1}{2}$ per cent., how much shall I gain or lose by so doing?

71. The capital of a railway company consists of £19,000,000 4 per cent. debentures, £37,000,000 5 per cent. preference stock, and £20,000,000 ordinary stock. The receipts are £8 per mile per day; the length is 2,500 miles; the working expenses are 55 per cent. What dividend can it pay on the ordinary stock?

72. At a certain date some London bankers held £16,000,000 cash reserves against £126,000,000 liabilities. Subsequently they held £17,500,000 cash reserves, but they had diminished the ratio of reserves to liabilities by 20 per cent. What were their liabilities at the later date?

73. Explain the following terms:—Depreciation, gross profits, trading account, revenue account.

74. "The Lord Mayor yesterday remitted to Madras by telegraph £2000 as a first instalment on account of the Indian Famine Fund." Explain by what expedients the transfer is effected, and give the entries in London and Madras books respectively.

VIII. INSTITUTE OF CHARTERED ACCOUNTANTS.

75. What classes of contracts are prohibited by common law or statute? What is the difference in law between an illegal and a void contract?

76. Explain the term partnership, and state whether the execution of a deed defining the conditions of the partnership is an absolute necessity. State briefly the liability of partners (1) as to each other, (2) as to the world generally, and state whether there can be membership in a firm with a participation in profits without liability to the firm's creditors.

77. In what cases does a purchaser of personal property from a person not the owner obtain a good title to it?

78. A enters into a contract with B to sell iron ore, to be delivered by monthly instalments against acceptances at one month. The third instalment is rejected as not being up to sample, but the acceptance for the second instalment is dishonoured at maturity. What are the rights and liabilities of the parties?

79. What do you consider to be the essence of good bookkeeping, and are you of opinion that the double-entry system is applicable to all kinds of trading? Can you give any instance where the preference should be given to single entry?

80. In a business where it is the rule to draw upon customers for sales and to accept for purchases, the drafts being paid direct into the bank and discounted, briefly explain the several entries that would be made to give effect to such transactions.

81. Explain the object of a suspense account, and in what special cases would you deem such an account absolutely essential?

82. What is a trial balance, and at what stage of the general balancing of accounts should it be taken out? After a trial balance has been taken and found correct, what further entries are usually necessary for the purpose of adjusting the accounts?

83. Mention some of the mistakes which bookkeepers are liable to make in posting from one book to another.

84. A receiving order is made against a debtor. State very concisely the successive steps between the making of such an order and adjudication in bankruptcy, where that result follows.

IX. OXFORD UNIVERSITY EXTENSION.¹

85. Compare the mediaeval guilds and the modern trades-unions as regards (1) their objects, (2) their success in attaining them.

86. "England in the Tudor period is still primarily a country engaged in agriculture." What conditions gave rise to the subsequent development of manufactures and commerce?

87. When was the Hanseatic League at the zenith of its greatness? How is its decline to be accounted for?

88. To what economic causes can the rapid decline of Spain after the 16th century be attributed?

89. Sketch the history of the English coinage, noting the varying relations at different times between gold and silver.

90. Explain carefully the meaning of the Mercantile System, and criticise its defects.

¹ Following a course of lectures by K. D. Cotes, M.A.



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